



# 2014

FISCAL YEAR  
AGENCY FINANCIAL REPORT

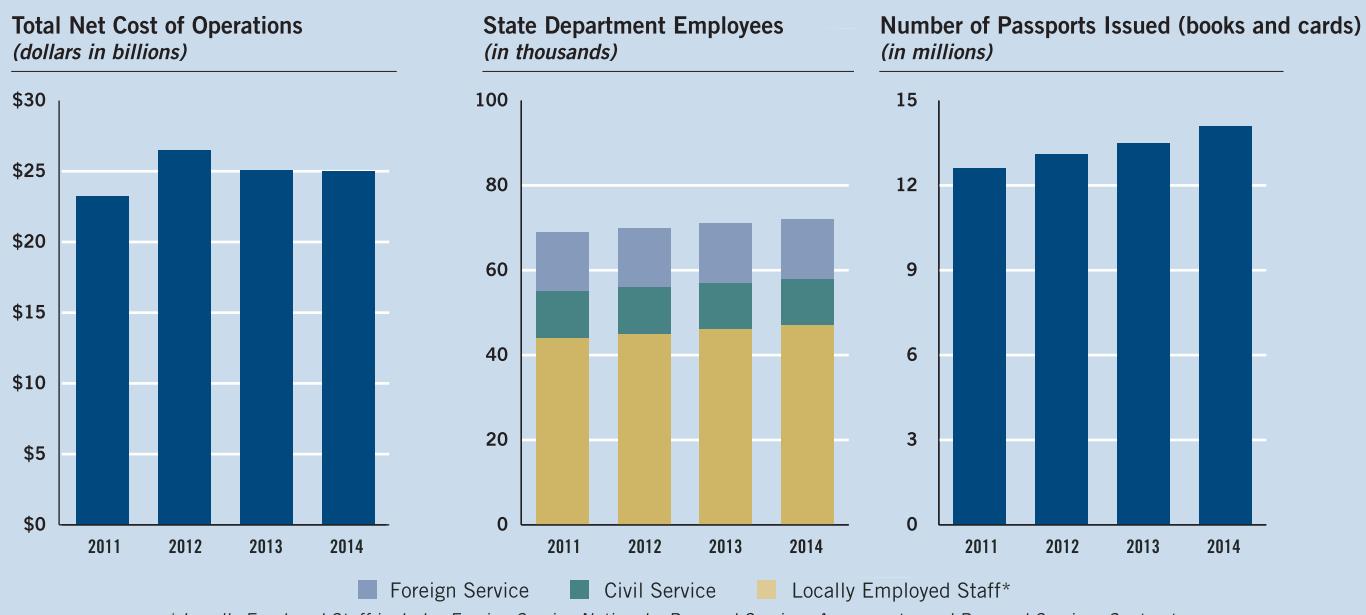
UNITED STATES DEPARTMENT OF STATE

INVESTING IN SHARED SECURITY AND PROSPERITY



2014* Highlights (dollars in billions)	Percent Change 2014 over 2013	2014				2013	2012	2011	
		2014	2013	2012	2011				
<b>Balance Sheet Totals as of September 30</b>									
Total Assets	2%	\$ 86.8	\$ 84.8	\$ 79.6	\$ 73.6				
Total Liabilities	-5%	25.1	26.4	25.4	24.1				
Total Net Position	6%	61.7	58.4	54.2	49.5				
<b>Results of Operations for the Year Ended September 30</b>									
Total Net Cost of Operations	—	\$ 25.0	\$ 25.1	\$ 26.5	\$ 23.2				
<b>Budgetary Resources for the Year Ended September 30</b>									
Total Budgetary Resources	6%	\$ 64.5	\$ 60.6	\$ 57.5	\$ 53.3				
<b>Visas Issued at Foreign Posts</b>					9.9 million	9.2 million	8.9 million	7.5 million	

\* Throughout this report all use of year indicates fiscal year.



## ABOUT THE COVER

The cover is a photo montage that presents the Department's commitment to investing in shared security and prosperity while conducting diplomacy to meet the world's ever changing challenges. The images include: (top left) President Barack Obama delivering remarks at the Investing in Africa Future – U.S.-Africa Summit, Washington, D.C., August 6, 2014; (top right) U.S. Secretary of State John Kerry addresses General Electric facility in Luanda, Angola, August 6, 2014; (middle right) Secretary Kerry observing U.S. efforts to assist the Philippines following Typhoon Yolanda; (bottom right) Consular Affairs officer tracking down U.S. citizens following Typhoon Yolanda; (bottom middle) Security and Consular excellence assured with new Embassy in Santo Domingo, Dominican Republic; and (bottom left) Secretary Kerry delivering remarks at the 2014 Our Ocean conference at the State Department, in Washington, D.C., June 16, 2014.



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# About This Report

The U.S. Department of State's *Agency Financial Report* (AFR) for Fiscal Year (FY) 2014 provides an overview of the Department's financial and performance data to help Congress, the President, and the public assess our stewardship over the resources entrusted to us. This report is available at the Department's website ([www.state.gov/s/d/rm/rls/perfrpt/2014/index.htm](http://www.state.gov/s/d/rm/rls/perfrpt/2014/index.htm)) and includes sidebars, videos, links, and information that satisfies the reporting requirements contained in the following legislation:

- Federal Managers' Financial Integrity Act of 1982,
- Chief Financial Officers Act of 1990,
- Government Performance and Results Act (GPRA) of 1993,
- Government Management Reform Act of 1994,
- Federal Financial Management Improvement Act of 1996,
- Reports Consolidation Act of 2000,
- Improper Payments Information Act of 2002, and
- GPRA Modernization Act of 2010.

The AFR is the first of a series of three annual financial and performance reports the Department will issue. The reporting schedule includes: (1) an *Agency Financial Report* issued in November 2014; (2) an agency *Annual Performance Report* (APR) for FY 2014 in conjunction with the FY 2016 *Congressional Budget Justification* (CBJ), which is the Department's budget request to Congress, to be issued in February 2015; and (3) a *Summary of Performance and Financial Information*, to be released also in February 2015. The last report will be produced jointly with the U.S. Agency for International Development (USAID). These reports will be available online at <http://www.state.gov/s/d/rm/c6113.htm>.

## Certificate of Excellence in Accountability Reporting

In May 2014, the U.S. Department of State received the *Certificate of Excellence in Accountability Reporting* (CEAR) from the Association of Government Accountants (AGA) for its Fiscal Year 2013 Agency Financial Report. The CEAR Program was established by the AGA, in conjunction with the Chief Financial Officers Council, to further performance and accountability reporting. This represents the seventh time the Department has won the CEAR award. In addition, the Department's AFR was awarded the Platinum Award (1st Place) by the League of American Communications Professionals (LACP) for excellence within its industry. The LACP also ranked the AFR in their Top 50 Annual Reports (ranking at 5th overall from 6,000 entries in over two dozen countries).



# How This Report is Organized

The State Department's Fiscal Year 2014 Agency Financial Report (AFR) provides financial and performance information for the fiscal year beginning October 1, 2013, and ending on September 30, 2014, with comparative prior year data, where appropriate. The AFR demonstrates the agency's commitment to its mission and accountability to Congress and the American people. This report candidly presents the Department's operations, accomplishments, and challenges. The AFR begins with a message from the Secretary of State, John F. Kerry. This introduction is followed by three main sections and various appendices. In addition, a series of "In Focus" sidebars are interspersed to present useful information on the Department.

## SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS

Section I provides an overview of the Department's performance and financial information. It includes a brief history of the Department, introduces its mission and values, and describes the agency's organizational structure. This section highlights the Department's goals and priorities, and summarizes the results for selected key performance programs. The section also highlights the agency's financial results, and provides management's assurances on the Department's internal controls.

## SECTION II: FINANCIAL SECTION

Section II begins with a message from the Comptroller. This section details the Department's finances and includes the audit transmittal letter from the Inspector General, the independent auditor's reports, and the audited financial statements and notes. The Required Supplementary Information included in this section provides a combining schedule of budgetary resources, a report on the Department's year-end deferred maintenance, and the condition of heritage asset collections.

## SECTION III: OTHER INFORMATION

Section III begins with the Schedule of Spending and the Inspector General's assessment of the agency's management and performance challenges and a brief summary of the Department's corrective actions. The section also includes a summary of the results of the Department's financial



The American flag at the U.S. Department of State flies at half-staff in honor of former South African President Nelson Mandela, December 6, 2013.

*Department of State*

statement audit and management assurances and describes the Department's financial legal requirements, as well as improper payments efforts, financial management systems, a summary of the Department's heritage assets, and freeze the footprint.

## APPENDICES

The appendices include data that supports the main sections of the AFR. This includes a glossary of abbreviations and acronyms used in the report, a map of the Department of State's locations across the globe, a list of the past and present U.S. Secretaries of State, and websites of interest.



# Message from the Secretary

I am pleased to present the U.S. Department of State's Agency Financial Report (AFR) for Fiscal Year (FY) 2014. This report reflects our commitment to the purposeful and efficient use of taxpayers' money in the pursuit of five critical missions of the Department of State and the U.S. Agency for International Development (USAID): proactive diplomacy, effective development, sustainable prosperity, the search for lasting peace, and principled American leadership in the world.

As I wrote when the President submitted his FY 2014 budget request, the United States remains the indispensable nation. As a result, the world looks to us for leadership in advancing global security and stability, promoting human rights and democracy, advocacy of equality and the elimination of poverty, and

protection against climate change and disease. The challenges presented this past year have highlighted that reality. As I write, America is mobilizing a Global Coalition against the terrorist network ISIL; we are at the center of an international effort to contain and end the Ebola crisis; we have bolstered Ukraine in the face of Russian aggression; we have increased our efforts in Central America to address the underlying causes of instability that prompt unaccompanied children to seek to migrate to the United States; and, with private sector and other partners, we have invested in Power Africa to double the number of people with access to power in the Sub-Saharan region.

While the headlines have focused on the most dramatic events, the vast majority of the Department's daily work reflects our long-term mandate to build and invest in the kind of shared security and prosperity that will enable our citizens to live in a safer, more peaceful, and equitable world.

Investing in shared security and prosperity starts overseas and ends at home. We have approached this effort with five strategic goals in mind.

First, throughout FY 2014 we have been working to create new American jobs by bolstering our exports, increasing the number of people with visas coming to our shores, and helping former beneficiaries of U.S. foreign assistance to become stronger trading partners. More specifically, we launched the new NEI/Next to help American businesses capitalize on opportunities to sell their goods and services abroad. We also began the U.S. Global Development Lab in April 2014 to spur innovative ideas that will help economies to grow. We worked to promote inclusive growth, reduce extreme poverty and improve food security, including leading a global reinvestment in agriculture.

**U.S. Secretary of State John Kerry delivers remarks at the annual Department of State Retirement Ceremony at the U.S. Department of State in Washington, D.C., January 28, 2014.**

*Department of State*



Second, we are striving to enhance international security through our fight against such global threats as violent extremism, the proliferation of nuclear arms, cyber warfare, and conflict both between and within countries. U.S. diplomacy is also at the forefront in the effort to respond to global health challenges, extreme poverty, and hunger. In every arena, many of our actions are designed to increase the capacity of our overseas partners to solve problems at home, before they become problems for us.

Third, we are leading an effort to transform global energy policy in the direction of cleaner and more sustainable sources of power. This is a top priority for the United States on every continent as we prepare for next year's conference regarding the global Convention on Climate Change.

Fourth, we are protecting core U.S. interests by advancing democracy, promoting human rights, and defending the prerogatives of civil society. During this past fiscal year, we were engaged in democratic institution-building initiatives in 25 countries. We supported a “New Deal” program for fragile states, which is helping 20 countries to recover from conflict and a lack of development. And we have joined with the United Kingdom, Sweden, and the Open Society Foundation in a \$55 million partnership, Making All Voices Count, which is designed to help citizens engage more effectively with their governments.

Finally, we are modernizing how we do diplomacy and development. At the State Department, this means providing a unified, secure and cost effective platform, managing risk proactively, emphasizing the wise use of scarce resources, providing excellent customer service, and recruiting, developing and supporting a 21st Century workforce. At USAID it has meant institutionalizing a new model of development through enhanced private-public partnerships and multi-stakeholder alliances. We have focused on excellence in Consular Service, exceeding our goals of processing 99 percent of passports within target times and meeting with 97 percent of visa applicants within 3 weeks of first contact. With regards to security, 1300 personnel were moved into more secure and functional facilities in FY 2014.

In advancing these goals, we look for the most effective, sustainable, and innovative investments, working to catalyze greater change and mobilize new partners. Our desire is to identify problems early and to seek out partnerships that will avoid duplication and enable fresh approaches to ongoing challenges. We are working to prevent crises by acting in time, through our investments in shared security and prosperity. We are responding effectively, when needed, with careful stewardship of American resources.

The second Quadrennial Diplomacy and Development Review (QDDR), expected in FY 2015, will build on our progress since the 2010 QDDR, updating the roadmap for taking smart investments in shared security and prosperity into the next decade.

The State Department remains committed to high standards of financial operations, reporting, and accountability, and to the continued improvement of our financial management and internal controls. The Message from the Comptroller in this AFR underscores our improvements in FY 2014 and includes the results of the independent audit of our FY 2014 Financial Statements. To ensure this AFR is complete and reliable, we worked with our Independent Auditor on the financial data, and with our bureaus and missions on the summary performance data.

With the leadership of President Obama and help from Congress, we continue to meet today's challenges and build for the future. This is a critical moment for American leadership in the world and that leadership starts with our diplomats and development professionals – out where it matters most – advancing economic opportunity, freedom and peace across the globe.



John F. Kerry  
Secretary of State  
November 17, 2014

Deputy Secretary Bill Burns meets with Pakistani Ambassador to the United States Jalil Jilani at the U.S. Department of State in Washington, D.C., January 16, 2014. *Department of State*



# SECTION I:

# Management's Discussion and Analysis

“ One of the things I want to emphasize, when I became the nominee I said to everybody on the committee that: Foreign policy is economic policy; economic policy is foreign policy in today’s world. And so we have set ourselves up in the State Department to be increasingly geared towards helping American businesses and towards creating new partnerships in an effort to also promote our foreign policy goals. We’re focused on jobs diplomacy and shared prosperity. ”

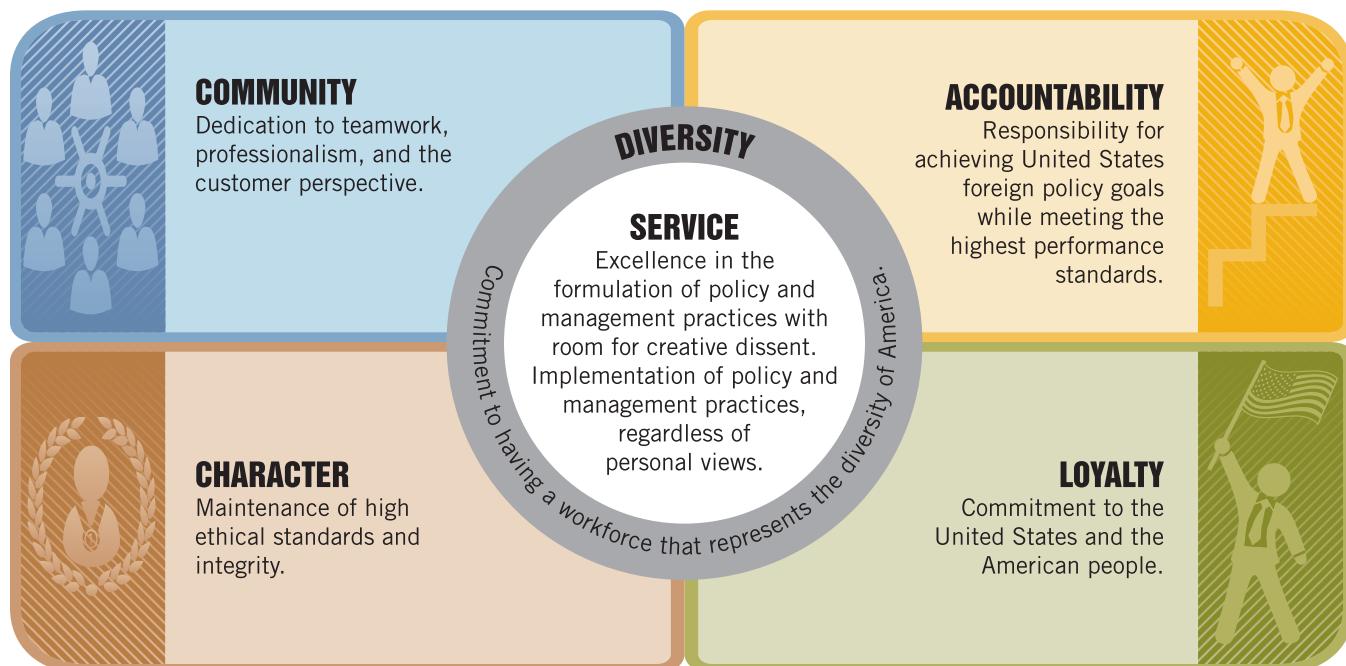
– Secretary of State, John Kerry

## About the Department

### OUR MISSION STATEMENT

*The Department’s mission is to shape and sustain a peaceful, prosperous, just, and democratic world and foster conditions for stability and progress for the benefit of the American people and people everywhere. This mission is shared with the USAID, ensuring we have a common path forward in partnership as we invest in the shared security and prosperity that will ultimately better prepare us for the challenges of tomorrow.*

### OUR VALUES



## OUR HISTORY

The U.S. Department of State (the Department) is the lead U.S. foreign affairs agency within the Executive Branch and the lead institution for the conduct of American diplomacy. Established by Congress in 1789, the Department is the nation's oldest and most senior cabinet agency.

The Department is led by the Secretary of State, who is nominated by the President and confirmed by the U.S. Senate. The Secretary of State is the President's principal foreign policy advisor and a member of the President's Cabinet. The Secretary carries out the President's foreign policies through the State Department and its employees.

### Did You Know?

*Secretary of State William Henry Seward negotiated the 1867 purchase of Alaska. For a complete list of those who have served as U.S. Secretary of State, please refer to Appendix C of this report.*



More information on former Secretaries can be found at: <https://history.state.gov/departmenthistory/people/secretaries>

## OUR ORGANIZATION AND PEOPLE

The Department of State advances U.S. objectives and interests in the world through its primary role in developing and implementing the President's foreign policy worldwide. The Department also supports the foreign affairs activities of other U.S. Government entities including the United States Agency for International Development (USAID). USAID is the U.S. Government agency responsible for most non-military foreign aid and it receives overall foreign policy guidance from the Secretary of State. The State

Department carries out its foreign affairs mission and values in a worldwide workplace, focusing its energies and resources wherever they are most needed to best serve the American people and the world.

The Department is headquartered in Washington, D.C. and has an extensive global presence, with more than 270 embassies, consulates, and other posts in over 180 countries. A two-page map of the Department's locations appears in Appendix B. The Department also operates several other types of offices, mostly located throughout the United States, including several passport agencies, two foreign press centers, one reception center, five logistic support offices for overseas operations, 20 security offices, and two financial service centers.



Arabic Books Program Manager Ruba Hattar reads to children in Amman. "Idea Power" – Books used to reach Jordan's people, March 2014. *State Magazine*

The Foreign Service officers and Civil Service employees in the Department and U.S. missions abroad represent the American people. They work together to achieve the goals and implement the initiatives of American foreign policy. The Foreign Service is dedicated to representing America and to responding to the needs of American citizens living and traveling around the world. They are also America's first line of defense in a complex and often dangerous world. The Department's Civil Service corps, most of whom are headquartered in Washington, D.C., is involved in virtually every policy and management area – from democracy and human rights, to narcotics control, trade, and environmental



With Deputy Secretary of State for Management and Resources Heather Higginbottom looking on, Acting Assistant Secretary for Consular Affairs Michelle Bond leads the Pledge of Allegiance during a naturalization ceremony at the U.S. Department of State in Washington, D.C., July 9, 2014. *Department of State*

issues. Civil Service employees also serve as the domestic counterpart to Foreign Service consular officers who issue passports and assist U.S. citizens overseas.

Host country Foreign Service National (FSN) and other Locally Employed (LE) staff contribute to advancing the work of the Department overseas. Both FSNs and other LE staff contribute local expertise and provide continuity as they work with their American colleagues to perform vital services for U.S. citizens. At the close of 2014, the Department was comprised of approximately 72,000 employees.

The U.S. Department of State, with just over one percent of the entire federal budget, has an outsized impact on Americans' lives at home and abroad. For a relatively small investment, the Department yields a large return in a cost-effective way by advancing U.S. national security, promoting our economic interests, creating jobs, reaching new allies, strengthening old ones, and reaffirming our country's role in the world. The Department's mission impacts American lives in multiple ways.

These impacts include:

1. **We create American jobs.** We directly support 20 million U.S. jobs by promoting new and open markets for U.S.

firms, protecting intellectual property, negotiating new airline routes, and competing for foreign government and private contracts.

2. **We support American citizens abroad.** We provided emergency assistance to U.S. citizens in countries experiencing natural disasters or civil unrest. In calendar year 2013, the most recent year that figures are available, we assisted in over 7,000 international adoptions and received more than 1,000 reports of international parental child abduction. We also assisted in the return of over 520 abducted children to the United States.
3. **We promote democracy and foster stability around the world.** Stable democracies are less likely to pose a threat to their neighbors or to the United States. In South Sudan, Libya, and many other countries, we worked to foster democracy and peace.
4. **We help to make the world a safer place.** Together with Russia, under the New Strategic Arms Reduction Treaty, we are reducing the number of deployed nuclear weapons to levels not seen since the 1950s. Our nonproliferation programs have destroyed stockpiles of missiles, munitions, and material that can be used to make a nuclear weapon. The Department has helped more than 40 countries clear millions of square meters of landmines.



U.S. Secretary of State John Kerry engages in an "ASEAN handshake" with fellow ministerial colleagues during a group photo preceding the ASEAN-U.S. Ministerial Meeting, which facilitates strengthening U.S. ties with regional institutions such as ASEAN as a key part of the rebalance to the Asia Pacific in Naypyitaw, Burma, August 9, 2014. *Department of State*

## FOCUS

### The Asia-Pacific Rebalance: Expanding U.S. Engagement

Recognizing that America's future prosperity and security are intertwined with the Asia-Pacific region, President Barack Obama made a strategic commitment to rebalance our efforts and investments toward Asia. The United States will remain a strong, reliable, and active partner in the region and is investing diplomatic, public diplomacy, military, and assistance resources in a way that is commensurate with our comprehensive engagement.

#### United States Objectives:

- Modernize and strengthen U.S. alliances;
- Develop and strengthen ties with emerging partners;
- Increase trade and investment and expand broad-based economic growth;
- Ensure our military presence in the region effectively supports the full range of our engagement;
- Promote democratic development, good governance, and human rights.

Stretching from Southwest Asia to the western coast of the Americas, the **Asia-Pacific Region**:

- Holds more than half the world's population and a growing middle class;
- Generates half of global economic output;
- Accounts for half of all global trade.

#### Benefits:

##### United States

- Supporting efforts that create and sustain American jobs;
- Making America safer and more secure;
- Helping expand the ranks of democratic and prosperous states.

##### Asia-Pacific Region

The United States' foreign direct investment in the Asia-Pacific has grown significantly since the beginning of the Obama Administration. These investments support jobs and economic growth in the region and at home, and signify our long-term stake in the economic growth and development of the Asia-Pacific.

5. **We save lives.** Strong bipartisan support for U.S. global health investments has led to worldwide progress against HIV/AIDS, tuberculosis, malaria, and polio. Better health abroad reduces the risk of instability and enhances our national security.
6. **We help countries feed themselves.** We help other countries plant the right seeds in the right way and get crops to markets to feed more people. Strong agricultural sectors lead to more stable countries.
7. **We help in times of crisis.** From earthquakes in Haiti, Japan, and Chile, to famine in the Horn of Africa, our dedicated emergency professionals deliver assistance to those who need it most.
8. **We promote the rule of law and protect human dignity.** We help people in other countries find freedom and shape their own destinies. Reflecting U.S. values, we advocate for the release of prisoners of conscience, attempt to prevent political activists from suffering abuse, train police officers to combat sex trafficking, and equip journalists to hold their governments accountable.
9. **We help Americans see the world.** The Department's Bureau of Consular Affairs supports and protects the American public. In 2014, we issued 14.1 million passports and passport cards for Americans to travel abroad. We facilitate the lawful travel of international students, tourists, and business people to the United States, adding greatly to our economy. We also keep Americans apprised of dangers or difficulties abroad through our travel warnings.
10. **We are the face of America overseas.** Our diplomats, development experts, and the programs they implement are the source of American leadership and the embodiments of our American values around the world.



For more information, a video on Consular Affairs entitled "Welcoming the World" may be viewed at: <http://video.state.gov/en/video/2761491252001>

The Department's organizational chart appears on page 13. As shown, the Secretary of State (S) is supported by two Deputy Secretaries, the Executive Secretariat (S/ES), the Office of U.S. Foreign Assistance Resources (F), the Counselor (C) and Chief of Staff (S/COS), six Under Secretaries, and over 30 functional and management bureaus and offices. The Deputy Secretary of State (D) serves as the principal deputy, adviser, and alter ego to the Secretary of State. The Deputy Secretary of State for Management and Resources (D-MR) serves as the Department's Chief Operating Officer. The Under Secretaries have been established for Political Affairs (P); Economic Growth, Energy and Environment (E); Arms Control and International Security Affairs (T); Public Diplomacy and Public Affairs (R); Management (M); and Civilian Security, Democracy and Human Rights (J). The Under Secretary for Management also serves as the Chief Financial Officer for the Department.

The Department's political affairs mission is supported through six regional bureaus — each is responsible for a specific geographic region of the world. These include:

- Bureau of African Affairs (AF),
- Bureau of European and Eurasian Affairs (EUR),
- Bureau of East Asian and Pacific Affairs (EAP),
- Bureau of Near Eastern Affairs (NEA),
- Bureau of South and Central Asian Affairs (SCA), and
- Bureau of Western Hemisphere Affairs (WHA).

The Department also includes the Bureau of International Organization Affairs. This Bureau develops and implements U.S. policy in the United Nations, its specialized and voluntary agencies, and other international organizations.



For more information, view the video entitled "About the Department" at: <http://video.state.gov/en/video/2761500542001>

## OUR WORK AT HOME AND OVERSEAS

At home, the passport process is often the primary contact most U.S. citizens have with the Department of State. There are 29 domestic passport agencies and centers, and approximately 8,400 passport acceptance facilities worldwide. The Department designates many post offices, clerks of court, public libraries and other state, county, township, and municipal government offices to accept passport applications on its behalf. In January 2014, a new Passport Agency in San Juan, Puerto Rico opened its doors to the public.

Overseas, in each Embassy, the Chief of Mission (usually an Ambassador) is responsible for executing U.S. foreign policy aims, as well as coordinating and managing all U.S. Government functions in the host country. The President appoints each Chief of Mission, who is then confirmed by the Senate. The Chief of Mission reports directly to the President through the Secretary of State. The U.S. Mission is also the primary U.S. Government point of contact for Americans overseas and foreign nationals of the host country.

The Mission serves the needs of Americans traveling, working, and studying abroad, and supports Presidential and Congressional delegations visiting the country.

Every diplomatic mission in the world operates under a security program designed and maintained by the Department's Bureau of Diplomatic Security (DS). In the United States, DS investigates passport and visa fraud, conducts personnel security investigations, and protects the Secretary of State and high-ranking foreign dignitaries and visiting officials. An "In Focus" view of our global visa fraud investigations is shown below.

Additionally, the Department utilizes a wide variety of technology tools to further enhance its effectiveness and magnify its efficiency. Today, most offices increasingly rely on digital video conferences, virtual presence posts, and websites to support their missions. The Department also leverages social networking Web tools to engage in dialogue with a broader audience. See Appendix D for Department websites of interest.

## FOCUS

### Increased Number of Visa Crime Investigations Opened Globally

The Bureau of Diplomatic Security (DS) is the security and law enforcement arm of the Department. Visa crimes are international offenses that may start overseas, but can threaten public safety inside the United States if offenders are not interdicted with aggressive and coordinated law enforcement action. DS agents and analysts observe, detect, identify, and neutralize networks that exploit international travel vulnerabilities. DS global visa crime investigations and arrests have increased over 71 percent since 2009.



*In September 2014, James Hector Alcala, a Salt Lake City attorney, was sentenced to 56 months in Federal prison for conspiracy to commit visa fraud and alien smuggling. The 17-count indictment alleged that Alcala, a Salt Lake City law firm, a property management company, and seven other individuals intended to profit financially by assisting Utah employers in obtaining H-2B visas for their foreign national workers by fraudulently representing to Federal agencies that the foreign nationals were eligible for visas.*

*Source: U.S. Department of State, Bureau of Diplomatic Security.*



1. The dotted lines on the Organizational Chart represent the Secretary of State's shared authority with the USAID Administrator and the U.S. Permanent Representative to the U.S. Mission to the United Nations.
2. The Organizational Chart displays two positions as Deputy Secretary of State. The Deputy Secretary of State (D) serves as the principal deputy, adviser, and alter ego to the Secretary of State. The Deputy Secretary of State for Management and Resources (D-MR) serves as the Department's Chief Operating Officer.
3. The Under Secretary for Management (M) serves as Chief Financial Officer of the Department.

# Strategic Goals and Government-wide Management Initiatives

## MANAGING FOR RESULTS: PLANNING, BUDGETING, MANAGING, AND MEASURING

Strategic Planning is a forward-looking management tool to set priorities, focus resources, strengthen operations and ensure all are working toward shared objectives. The first Quadrennial Diplomacy and Development Review (QDDR) provided broad recommendations to strengthen planning, budgeting, and performance management for diplomacy and development at the Department, as well as for USAID.

The QDDR articulated the need to elevate and improve strategic planning, to align budget requests to plans, to create better monitoring and evaluation systems, and to integrate and rationalize these components into a cohesive planning, budgeting, program, and performance management framework. From this review grew new planning processes that included increased stakeholder engagement and integrated mission-level planning; budgets built upon mission-level objectives to inform bureau-level and agency-level budget requests; measures of success and indicators that are more closely tied to plans and budgets; data driven reviews; technical assistance tools, such as program and performance management handbooks; and a Department-wide evaluation policy that mandates rigorous evaluations and use of evidence for decision-making.

The Department's new model for strategic planning differs from the past by being more streamlined and integrated with budgeting, monitoring, and evaluation. Strategic planning and resource planning are now separate and sequential processes. The Department sets objectives before determining the appropriate funding level, rather than combining strategic and resource planning.

Performance management practices at the Department of State enable programs to achieve U.S. foreign policy outcomes and promote greater accountability to the American people. Strategic planning and performance management are rooted in the Department by the National Security Strategy, the QDDR, and the Government Performance and Results Modernization Act of 2010. Day-to-day, performance management is guided by the QDDR *Managing for Results Framework*.



Managing for Results Framework

The *Managing for Results Framework* forms an evaluation and performance cycle for programs supporting the current Strategic Plan and influencing future strategic planning efforts and associated budget requests. In short, all of these efforts link strategic, long-term planning with budget planning; institutionalize evidence into planning, program and project design, and budget decision-making; nurture innovative ways to address tight budgets and to prioritize resources; and better inform taxpayers and Congress of our progress in carrying out the Department's mission and goals.

## JOINT STATE-USAID STRATEGIC GOALS

In FY 2014, the Department of State and USAID developed the 2014 - 2017 Joint Department of State – USAID Strategic Plan through a consultative process involving the senior leadership of the two agencies. Their deliberations, shaped by Presidential directives and policies, previous strategic planning efforts, and the 2010 Quadrennial Diplomacy and Development Review, produced the strategic goals and strategic objectives for the next four years. Working groups comprised of representatives from both agencies took these goals and objectives and assembled information that describes the programs and activities designed to achieve them. The Department and USAID have consulted with other Government agencies on the Joint Strategic Plan and also engaged their Congressional



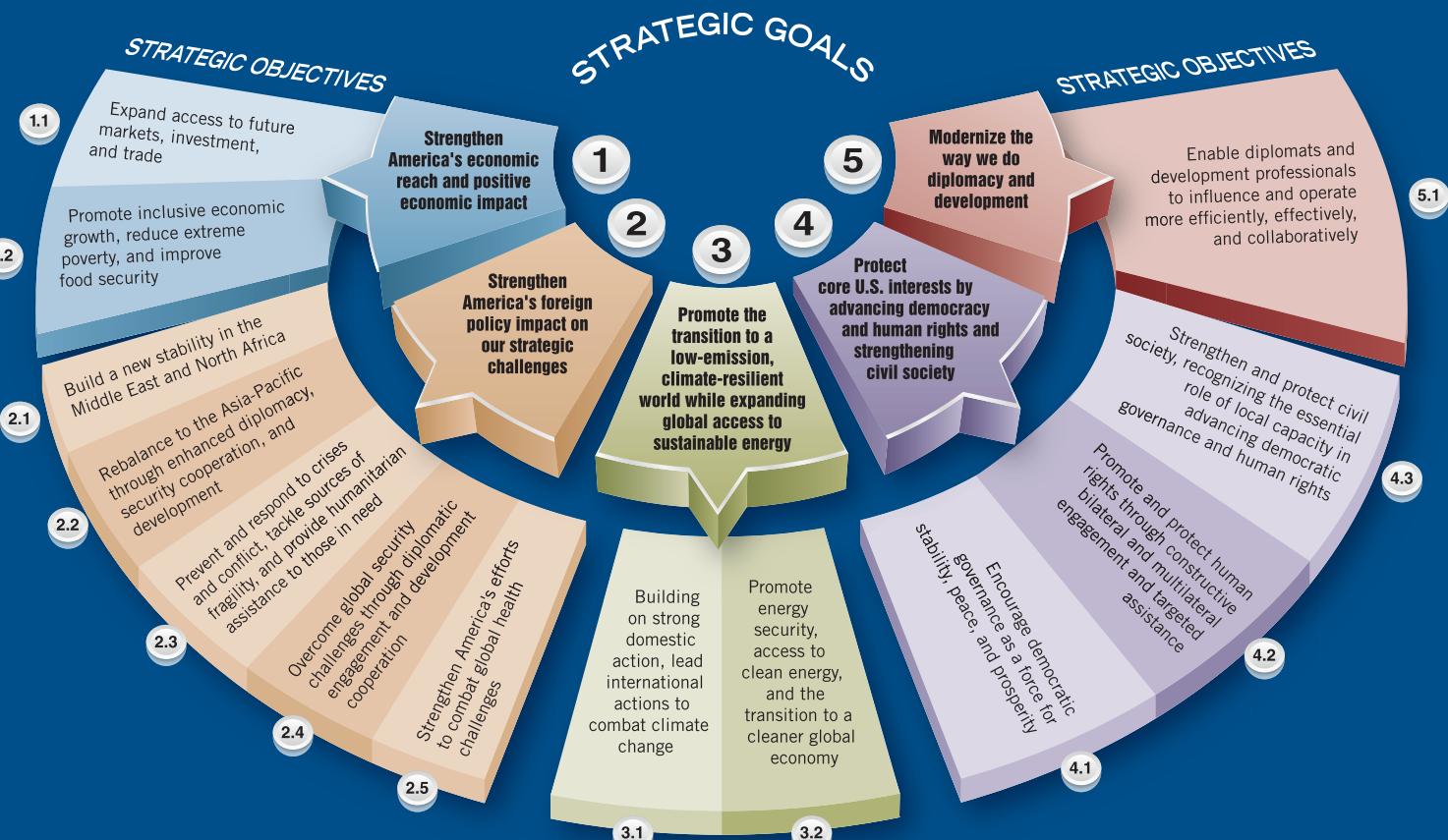
oversight committees to explain the goals and objectives of this planning effort. While the Joint Strategic Plan does not capture all the work that the State Department and USAID are doing, it lays out five strategic goals. Notably, in 2015, the Department and USAID will not issue separate Annual Performance Reports but will instead issue a joint APR that will report the common progress both agencies have made towards these goals.

The Department of State – USAID Joint Strategic Goal Framework below highlights the Department's strategic goals and strategic objectives.



More information on the Joint Strategic Plan can be found at: <http://www.state.gov/documents/organization/223997.pdf>

## State-USAID Joint Strategic Goal Framework



## STRATEGIC GOAL 1: STRENGTHEN AMERICA'S ECONOMIC REACH AND POSITIVE ECONOMIC IMPACT

Increasingly, foreign policy is economic policy. To maintain American leadership in an era defined by economic power, we need to shift economics from the periphery to the center of U.S. foreign policy, and keep driving an economic agenda that confronts the major economic challenges of our time. Peace, prosperity, sustainable development, stability, and security are inexorably linked to economic growth and development. Government alone cannot bring about global growth and development; it can only do so with the cooperation of the private sector. Through innovative business models and entrepreneurship, promotion of free markets, human rights, labor rights, rule of law, respect for the environment, and the free exchange of ideas, the Department of State and the U.S. private sector directly enhance the ability of our nation to advance security, prosperity, and sustainable economic growth for America and the world.

In a world where 95 percent of consumers live outside the United States, American prosperity depends on strong demand for our goods and services abroad and the free

flow of goods and capital. While the private sector does the trading and investing, the government has an important role in strengthening America's economic reach. State Department officials work to open foreign markets; advocate on behalf of U.S. firms; foster science, technology, education, and innovation; improve governance, rule of law, and transparency; and advance conditions for private sector-led growth. These actions all promote economic growth and help create jobs in the United States.

In the developing world, inclusive economic growth, in which all members of society share in the benefits of growth, can be transformative by reducing poverty, expanding opportunity, and reducing gender inequality. Development assistance is in our economic interest, in our strategic interest, and is a visible expression of our values. The United States and other countries are helping one billion people out of extreme poverty by 2030 through investments that improve economic opportunity, health, food security, education, stability, and accountable governance. While we cannot stop shocks from happening, we are committed to doing more to help people build the resilience to withstand them. Workforce development programs promote inclusion by providing youth with job-specific skills. Respect for labor rights ensures that workers enjoy a fair share of the benefits of economic growth.

A more innovative world is a more prosperous world and one that can tackle global challenges more effectively. To this end, the United States fosters a positive international environment for creative entrepreneurs. Ours is a knowledge economy, with over 60 percent of American exports in 2010 based on innovation. U.S. strength and leadership in technology, research and development, and new methods of doing business are strategic assets that attract international support for U.S. economic policies. The United States champions openness, transparency, non-discrimination, a free and open Internet, broadband access, the protection of intellectual property, and actively assists other countries in these areas. We also promote cross-border scholarly, entrepreneurial, and scientific exchanges and collaboration, including through public-private partnerships.



**U.S. Secretary of State John Kerry, joined by White House adviser John Podesta, addresses State Councilor Yang Jiechi and the U.S. and Chinese delegations in opening remarks at the plenary session of the sixth U.S.-China Strategic and Economic Dialogue in Beijing, China, July 10, 2014. Department of State**

## STRATEGIC GOAL 2: STRENGTHEN AMERICA'S FOREIGN POLICY IMPACT ON OUR STRATEGIC CHALLENGES

Deploying diplomats and development experts on the front-lines today is cheaper than deploying troops tomorrow. This is why we are acting on several fronts to make investments that strengthen the impact of America's foreign policy on our greatest strategic challenges. We know the difference that the United States can make around the world, and we must continue to deliver diplomatic, security, development, and humanitarian solutions that match the scale of the challenges we face.

The challenges we face are great, many, and span the globe. Whether it be providing care and treatment for HIV/AIDS and malaria in sub-Saharan Africa, strengthening judicial institutions in Latin America, building trust and combatting extremism in Afghanistan and Pakistan, or joining with our European partners to deliver humanitarian assistance where disaster strikes, the United States is at work in every region of the world. In all that we do, we are partnering with the United Nations and other international organizations, whose cooperation is critical to our success.

While the men and women of the Department of State are active worldwide, a few strategic challenges are singled out in this report because they exemplify our commitment to building performance capabilities and to measuring and reporting on our performance. These challenges are: building a new stability in the Middle East and North Africa (MENA); rebalancing to the Asia-Pacific; preventing and responding to crises and conflict, and providing humanitarian assistance to those in need; and combating challenges to global security and health.

Success in building a new stability in the MENA region is essential to U.S. global interests. The region is in the midst of transition and crisis, and poses some of the most immediate challenges for U.S. national security. The United States "rebalance" to the Asia-Pacific reflects a profound recognition that the security and prosperity of our nation will be shaped by developments in that region.

In addition, more than 1.5 billion people worldwide live in fragile or conflict-affected states, or in countries trapped in cycles of violence. When states cannot control their territory, protect their people, support sustainable growth, or help those



Art Bank work includes "Coastal" (2014), Steven Walker, oil.

in need, the resulting instability disrupts economic activity and fosters permissive environments for violent extremists and weapons proliferation.

We must meet these and other global security and health challenges that affect international stability and prosperity, and threaten U.S. interests. These challenges include securing the world's most dangerous weapons; investing in rule of law; securing borders and combating transnational organized crime; and countering cyber threats. And we must continue to work with bilateral and multilateral partners to strengthen health systems in developing countries, create an AIDS-free generation, end preventable child and maternal deaths, and reduce the threat of infectious diseases.

## STRATEGIC GOAL 3: PROMOTE THE TRANSITION TO A LOW-EMISSION, CLIMATE-RESILIENT WORLD WHILE EXPANDING GLOBAL ACCESS TO SUSTAINABLE ENERGY

Sustainable and secure sources of energy are fundamental to global economic growth, prosperity, and stability. Global energy demand is expected to increase nearly 40 percent by 2030, with more than 90 percent of that increase occurring in developing and emerging market countries. Without

effective action, this increasing demand will lead to greater emissions causing further climate change.

Under the President's Climate Action Plan, we are investing at home to cut emissions from power plants, unlocking long-term investment in clean energy innovation, and building resilience to climate change in our communities. Internationally, we are leading efforts to forge a new agreement that applies to all countries starting in 2020. We are encouraging the safe, responsible transition to cleaner fuels such as natural gas, fostering investment, encouraging innovation in renewable technologies, and thereby creating opportunities for U.S. businesses. We are supporting countries in reducing greenhouse gas emissions from their forests and their land. And we are using diplomatic tools and development resources to reduce the likelihood of even more dangerous climate change in the future and to prepare vulnerable nations for climate impacts that will be unavoidable.

For the State Department, promoting the transition to a low-emission, climate-resilient world while expanding global access to sustainable energy is central to our mission. We are committed to addressing climate change in a way that permits all countries to prosper.

Energy and climate change shape political, economic, environmental, and security developments within and among countries. The global energy sector is undergoing dramatic change. Technologies such as hydraulic fracturing and horizontal drilling are altering the global energy landscape, with the Western Hemisphere becoming increasingly important as a source of production. Our oil imports are at their lowest level in 20 years. Energy efficiency and conservation programs with strong bipartisan support, such as improvements in vehicle fuel efficiency, continue to reduce our petroleum demand.

Even as the United States reduces its reliance on imported oil and gas and encourages a transition to renewable energy, increased energy demand from emerging markets continues to drive global demand for hydrocarbons. As we seek to transition from traditional energy resources, the world still needs a stable supply of energy, including security to the lines of transportation and a reasonable price for oil and gas. This security underpins stability in the global economy and helps mitigate resource-driven security risks.

## STRATEGIC GOAL 4: PROTECT CORE U.S. INTERESTS BY ADVANCING DEMOCRACY AND HUMAN RIGHTS AND STRENGTHENING CIVIL SOCIETY

U.S. leadership in advancing democracy and human rights, including labor rights, and strengthening civil society worldwide is a strategic long-term investment in our security, a matter of principle, and a crucial source of our international influence and strength. We commit to these efforts recognizing the likelihood of skepticism, setbacks, and tensions between our long- and short-term objectives, and understanding that progress requires our unwavering dedication to long-term priorities and enduring principles.

The National Security Strategy makes clear that in order to advance our common security, we must address the underlying political and economic deficits that foster instability, enable radicalization and extremism, and ultimately undermine the ability of governments to manage threats within their borders and to be our partners in addressing common challenges. These political and economic deficits often have roots in weak or nonexistent democratic institutions, governmental repression of universal human rights, disengagement of large sectors of the populace including women and youth, and an absence of robust civil society that drives positive change and counterbalances poor policymaking. Our efforts to promote democracy and human rights protect core U.S. interests by combating causes of instability and violent extremism, increasing inclusiveness in the political process, strengthening political and economic partnerships, and ensuring our development assistance contributes to lasting progress. By strengthening civil society, we reinforce a country's ability to examine and identify its own way forward that respects the will of the people and serves their needs.

In addition, U.S. leadership in multilateral fora, most notably the UN Human Rights Council, helps encourage greater attention to human rights crises; action to investigate human rights abuses and abusers; and that human rights defenders receive needed protection and support.

The State Department communicates our nation's commitment to democratic values and supports the

democratic aspirations of countries and people around the world. In our daily work, we pursue this National Security Strategy priority in concert with other political and economic imperatives. President Obama pledged at the United Nations: “The United States will at times work with governments that do not meet, at least in our view, the highest international expectations, but who work with us on our core interests. Nevertheless, we will not stop asserting principles that are consistent with our ideals, whether that means opposing the use of violence as a means of suppressing dissent, or supporting the principles embodied in the Universal Declaration of Human Rights.”

The United States asserts these principles in frank bilateral dialogue and the provision of technical assistance; by working through regional and multilateral mechanisms and multi-stakeholder initiatives; and by using the leverage of trade agreements and trade preference programs. We condition assistance; pursue meaningful sanctions and multilateral interventions; foster people-to-people ties; and partner with businesses and stakeholders to advance responsible business conduct that supports human and labor rights, transparency, and rule of law. We emphasize rule of law; human rights, promoting gender equality, and the increased participation of women in political and public life; the prevention of and response to gender-based violence; freedom from human trafficking; effective democratic institutions; independent media; tolerance; and strong, engaged civil society. By reaching out broadly to underserved audiences, particularly women and youth, we seek to engage many of those people who never make it into the halls of power, yet still press for accountability and progress through public debate and peaceful dissent in the public square, both online and off. Our work on anti-corruption, transparency, accountability, and rule of law strengthens the economic infrastructure vital to fair competition. Activists and organizations in authoritarian countries rely on our support as they work toward peaceful democratic reforms, democratic institutions, respect for minority rights, and dignity for all. In post-conflict states, we stand with those striving for accountability, justice, remediation, and reconciliation. Throughout the world, we work to advance inalienable rights, to share the U.S. democratic experience, and to expand the space for civil society.



**U.S. Secretary of State John Kerry unveils the 2014 Trafficking in Persons Report, which assesses government efforts around the world to combat modern slavery. The 2014 TIP Heroes are Gilbert Munda of the Democratic Republic of Congo, Elisabeth Sioufi of Lebanon, Beatrice Jedy-Agbia of Nigeria, Monica Boseff of Romania, Ta Ngoc Van of Vietnam, Bhanuja Sharan Lal of India, Tek Narayan Kunwar of Nepal, Jhinna Pinchi of Peru, Charmaine Gandhi-Andrews of Trinidad and Tobago, and Myeong-jin Ko of South Korea in Washington, D.C., June 20, 2014. Department of State**

## STRATEGIC GOAL 5: MODERNIZE THE WAY WE DO DIPLOMACY AND DEVELOPMENT

The Department of State and USAID drive the realization of U.S. foreign policy and assistance objectives through our diplomatic and development activities. In the 21st Century, effective engagement with international partners, stakeholders, customers, and audiences requires fundamental shifts that involve applying new technologies and innovative approaches for strengthening collaboration, coordinated and integrated strategic planning linked to budget priorities, and expanding our internal and external networks. Whether promoting transparency through open and accountable government and open data initiatives, meeting increased customer demand for passports and other consular services, expanding our digital media to reach a rapidly growing audience, or eliminating inefficiencies and reducing costs through business process reform, the Department and USAID are working together to amplify the effectiveness of our diplomatic and develop-

ment professionals. Modernizing how the Department and USAID operate is key to bolstering the U.S. Government response to the range and magnitude of foreign policy and development challenges. In accomplishing our mission, we stand committed to becoming more efficient, effective, transparent, and flexible organizations while maintaining accountability to the American people in managing government resources. The Department and USAID will continue efforts to regularly review business practices and processes to identify areas for improvement and innovation.

## AGENCY PRIORITY GOALS

A goal is a simple but powerful way to motivate people and communicate priorities. Leaders in states, local governments, Federal programs, and in other countries have demonstrated the power of using specific, challenging goals (combined with frequent measurement, analysis, and follow-up) to improve performance and cut costs. These stretch goals can be effective at changing the way an organization does business. This Administration has embraced the power of goal-setting as a way to improve the Federal Government's performance and accountability to the American people. Federal agencies are using near-term and longer-term goals in a variety of ways to improve their effectiveness and efficiency.

The Federal Government operates more effectively when agency leaders, at all levels of the organization, starting at the top, set clear measurable goals aligned to achieving better outcomes. It is also vital that they regularly engage their organizations and delivery partners in critical reviews of progress on these goals. This leads to the discovery of what works and what does not. Federal agency leaders are increasingly using goals and measurement to reinforce priorities, motivate action, and illuminate paths to improvement. Agencies are also using goals in partnership efforts to improve outcomes.

Agencies establish a variety of performance goals and objectives to drive progress toward key outcomes. Agencies outline long-term goals and objectives in their strategic plans, and annual performance goals in annual performance plans. Twenty-four major Federal agencies have also identified a limited number of two-year Agency Priority Goals (APG) in the FY 2015 budget, aligned with their

strategic goals and objectives. APGs target areas where agency leaders want to achieve near-term performance acceleration through focused senior leadership attention. The Administration has also adopted a limited number of Cross-Agency Priority (CAP) goals to improve cross-agency coordination and best practice sharing.

Four of the five Strategic Goals align with four APGs. Currently, there are no APGs reflected for Strategic Goal four. A crosswalk of the Joint Strategic Goals and APGs is contained in the table on the next page. A brief description of these APGs follows. The full APG language, goal leads, collaborating partners, and additional information may be found on [www.performance.gov](http://www.performance.gov).

- **Food Security:** Increase food security in Feed the Future initiative countries. By September 30, 2015, increase the number of farmers and others who have applied new technologies or management practices to eight million, from a corrected base of five million in 2012.
- **Global Health:** Support the global effort to end preventable child and maternal deaths. By September 30, 2015, U.S. assistance to end preventable child and maternal deaths will contribute to reductions in under-five mortality in 24 maternal and child health U.S. Government-priority countries by four deaths per 1,000 live births as compared to a 2013 baseline.
- **Climate Change:** Enable economic growth concurrent with significant reductions in national emissions trajectories through 2020 and the longer term by supporting the development and implementation of low emission development strategies (LEDS). By the end of 2015, U.S. bilateral assistance under LEDS will reach at least 25 countries (from the previous baseline of 22 countries) and will result in the achievement of at least 45 major individual country milestones, each reflecting a significant, measurable improvement in that country's development or implementation of LEDS. Also by the end of 2015, at least 1,200 additional developing country government officials and practitioners (from a baseline of 0) will strengthen their LEDS capacity through participation in the LEDS Global Partnership and that capacity will be meaningfully applied to 25 countries (from a baseline of 0).



■ **Excellence in Consular Service Delivery:** Provide consular operations that most efficiently and effectively protect U.S. citizens, ensure U.S. security, facilitate the entry of legitimate travelers, and foster economic growth. Through September 30, 2015, maintain a 99 percent rate of all passport applications processed within the targeted timeframe and ensure 80 percent of non-immigrant visa applicants are interviewed within three weeks of the date of application.

## CROSS-AGENCY PRIORITY GOALS OVERVIEW

Cross-Agency Priority (CAP) goals address the longstanding challenge of tackling horizontal problems across vertical organizational silos. Fifteen CAP goals were announced in the 2015 Budget, these include seven mission-oriented and eight management-focused goals with a four-year time horizon. To establish these goals, OMB solicited nominations from Federal agencies and several congressional committees.

Established by the GPRA Modernization Act of 2010, these CAP goals are a tool used by leadership to accelerate progress on a limited number of Presidential priority areas where implementation requires active collaboration between multiple agencies.

To ensure effective leadership and accountability across Federal Government, goals have a named senior leader both within the Executive Office of the President and within key delivery agencies. For example, the National Economic Council, together with the Deputy Secretaries from the Department of Commerce and the U.S. Department of State are leading efforts to encourage foreign direct investment and spur job growth by improving Federal investment tools and resources while increasing interagency coordination. In another example, the Presidential Personnel Office and Office of Personnel Management are teaming up to strengthen our Federal workforce through data-driven efforts to improve employee engagement, hiring reform, and improving our management cadre.

CROSSWALK OF STATE-USAID JOINT STRATEGIC GOALS AND AGENCY PRIORITY GOALS	
Strategic Goal (SG)	Agency Priority Goal
SG1: Strengthen America's economic reach and positive economic impact	Food Security
SG2: Strengthen America's foreign policy impact on our strategic challenges	Global Health
SG3: Promote the transition to a low-emission, climate-resilient world while expanding global access to sustainable energy	Climate Change
SG5: Modernize the way we do diplomacy and development	Excellence in Consular Service Delivery

## FOCUS

## The State Department Means Business: How the Department Promotes Prosperity at Home and Abroad

Following World War II, the Marshall Plan helped transform the economically decimated European states into a vibrant, prosperous region which is now one of the United States' most active trading partners. During the same period, U.S. efforts to reintegrate Japan into the world economy led to an economic revival that benefitted the entire Asia Pacific region.

Since then, the role of economics and business as a driver of global prosperity and stability has increased dramatically. The Department of State is in the forefront of efforts to create jobs and enhance stability at home and abroad by helping to expand foreign markets for U.S. businesses and attracting direct private investment to the United States.

Some ways the State Department's economic diplomacy advances these efforts are through:

**Trade and Investment:** Negotiate to reduce regulatory and tariff barriers to trade in order to level the playing field for U.S. companies and help U.S. exports reach foreign consumers.

**Commercial Advocacy:** Identify specific export opportunities and provide assistance to U.S. exporters facing challenges in foreign markets.

**Market Analyses:** Monitor business and regulatory conditions abroad and provide general guidance to potential U.S. exporters new to overseas markets.

**Foreign Direct Investment:** Facilitate investment into the United States by foreign individuals and companies, creating more jobs for Americans and expanding the tax base.



Women sell vegetables and other food in a market on World Food Day in Lagos, Nigeria. © AP Image

**Internet Freedom:** Engage with foreign regulators, multilateral agencies and civil-society to ensure the internet remains free from undue governmental control and restrictions.

**Entrepreneurship:** Encourage public-private partnerships that catalyze and coordinate non-governmental partners around activities that create jobs and improve economic conditions and political stability worldwide.

**Open Skies:** Negotiate air transport agreements that link American cities with the rest of the world; work to alleviate burdensome measures on U.S. air carriers.

**Intellectual Property Rights:** Increase public understanding and government enforcement of intellectual property principles.

### Mission Oriented Cross-Agency Priority Goals

■ **Cybersecurity:** Improve cybersecurity performance through ongoing awareness of information security, vulnerabilities, and threats impacting the operating information environment, ensuring that only authorized users have access to resources and information; and the implementation of technologies and processes that reduce the risk of malware.

■ **Climate Change:** More than double Federal Government consumption of electricity from renewable sources to 20 percent by 2020 and improve energy efficiency at Federal facilities as part of the wider strategy to reduce the Federal Government's direct greenhouse gas emissions by 28 percent and indirect greenhouse gas emissions by 13 percent by 2020 (2008 baseline).

- **Insider Threat and Security Clearance:** Mitigate the inherent risks and vulnerabilities posed by personnel with trusted access to government information, facilities, systems, and other personnel.
- **Job-Creating Investment:** Improve Federal investment tools and resources, while also increasing interagency coordination, to encourage foreign direct investment, spurring job growth.
- **Infrastructure Permitting Modernization:** Modernize the Federal permitting and review process for major infrastructure projects to reduce uncertainty for project applicants, reduce the aggregate time it takes to conduct reviews and make permitting decisions by half, and produce measurably better environmental and community outcomes.
- **STEM Education:** Improve Science, Technology, Engineering and Mathematics (STEM) Education by implementing the Federal STEM Education 5-Year Strategic Plan, announced in May 2013.
- **Service Members and Veterans Mental Health:** Improve mental health outcomes for Service Members, Veterans and their Families.

#### Management Oriented Cross-Agency Priority Goals

- **Customer Service:** Deliver world-class customer services to citizens by making it faster and easier for individuals and businesses to complete transactions and have a positive experience with government.
- **Smarter IT Delivery:** Improve outcomes and customer satisfaction with Federal services through smarter IT delivery and stronger agency accountability for success.
- **Strategic Sourcing:** Expand the use of high-quality, high-value strategic sourcing solutions in order to improve the government's buying power and reduce contract duplication.
- **Shared Services:** Strategically expand high-quality, high value shared services to improve performance and efficiency throughout government.
- **Benchmark and Improve Mission-Support Operations:** Improve administrative efficiency and increase the adoption of effective management practices by establishing

cost and quality benchmarks of mission-support operations and giving agency decision-makers better data to compare options, allocate resources, and improve processes.

- **Open Data:** Fuel entrepreneurship and innovation and improve government efficiency and effectiveness by unlocking the value of government data and adopting management approaches that promote interoperability and openness of this data.
- **Lab-to-Market:** Increase the economic impact of Federally-funded research and development by accelerating and improving the transfer of new technologies from the laboratory to the commercial marketplace.
- **People and Culture:** Innovate by unlocking the full potential of the workforce we have today and building the workforce we need for tomorrow.

A hyperlinked table to the Federal CAP goals that the Department contributes to is presented below.

FEDERAL CROSS-AGENCY PRIORITY GOALS	
Priority Goal	performance.gov link
Cybersecurity	<a href="http://www.performance.gov/node/3401">http://www.performance.gov/node/3401</a>
Climate Change	<a href="http://www.performance.gov/node/3406">http://www.performance.gov/node/3406</a>
Insider Threat and Security Clearance	<a href="http://www.performance.gov/node/3407">http://www.performance.gov/node/3407</a>
Job-Creating Investments	<a href="http://www.performance.gov/node/3408">http://www.performance.gov/node/3408</a>
Infrastructure Permitting Modernization	<a href="http://www.performance.gov/node/3393">http://www.performance.gov/node/3393</a>
STEM Education	<a href="http://www.performance.gov/node/3404">http://www.performance.gov/node/3404</a>
Service Members and Veterans Mental Health	<a href="http://www.performance.gov/node/3405">http://www.performance.gov/node/3405</a>
Customer Service	<a href="http://www.performance.gov/node/3400">http://www.performance.gov/node/3400</a>
Smarter IT Delivery	<a href="http://www.performance.gov/node/3403">http://www.performance.gov/node/3403</a>
Strategic Sourcing	<a href="http://www.performance.gov/node/3399">http://www.performance.gov/node/3399</a>
Shared Services	<a href="http://www.performance.gov/node/3398">http://www.performance.gov/node/3398</a>
Benchmark and Improve Mission-Support Operations	<a href="http://www.performance.gov/node/3397">http://www.performance.gov/node/3397</a>
Open Data	<a href="http://www.performance.gov/node/3396">http://www.performance.gov/node/3396</a>
Lab-to-Market	<a href="http://www.performance.gov/node/3395">http://www.performance.gov/node/3395</a>
People and Culture	<a href="http://www.performance.gov/node/3394">http://www.performance.gov/node/3394</a>

# Performance Summary and Highlights

The Department of State plays a unique role as the agency delegated by the President for the conduct of America's foreign affairs, just as the Department of the Treasury leads on economic issues and the Department of Defense guides on defense issues. Because of the increased interconnection between agencies, agencies that lead in some program areas support in others. Although many Federal agencies have international mandates, it is critical that they coordinate with the Department of State to ensure that our relationships are managed

effectively and our national objectives achieved efficiently. As the President's introduction to the National Security Strategy makes clear, the ultimate goal is to "build and integrate the capabilities that can advance our interests."

In an era of tight budgets and constrained resources, investing in civilian power makes sense. In fact, we see investments in civilian power – with its dedication to prevention and avoiding costlier efforts in the future – as a cost-effective necessity in times of fiscal restraint.

## FOCUS

### Elimination of Syrian Chemical Weapons

Pursuant to the September 14, 2013, United States-Russia Framework for Elimination of Syrian Chemical Weapons, the United States led a broad international effort to remove chemical weapons from Syria and to destroy them in accordance with the Chemical Weapons Convention. The Department of State led the efforts to mobilize the United Nations and the Organization for the Prohibition of Chemical Weapons in an unprecedented joint operation to pack and safely transport the chemical weapons to the port of Latakia. In cooperation with Russia, the Department sustained pressure on the Syrian regime to adhere to the schedule for removal. A number of international partners provided strong logistical support, notably Denmark and Norway for donating marine transport of the chemicals from Syria to Italy, as well as Germany, the UK and Finland for providing destruction facilities for certain chemicals. The most important part of the operation – the neutralization of the most dangerous chemicals – was accomplished using DoD-designed equipment aboard a specially equipped U.S. vessel. Though the original goal of completing destruction by July of 2014 was considered by many a year ago to be unrealistic, the main part of the task was accomplished by August 2014. Important work remains to verify the completeness of the Syrian declaration of its arsenal. However the destruction of the largest known chemical arsenal in the world, in such a short period, stands as a model of effective interagency coordination in Washington and extraordinary international support and cooperation.



Thomas Countryman, Assistant Secretary of State for International Security and Nonproliferation, briefed the media at the United Nations in Geneva, April 22, 2013.

Department of State



You can see how this hydrolysis procedure neutralized these chemicals at:  
[http://www.defense.gov/home/features/video/player.aspx?lejTV4\\_4iwY](http://www.defense.gov/home/features/video/player.aspx?lejTV4_4iwY)



For more information, please visit:  
<http://t.state.gov/t/syriacw/index.htm>

In FY 2014, the Department of State continued to increase analytical rigor in strategic planning and performance management by focusing on agency-level, outcome-oriented performance measures that support the strategic goals and agency priority goals. The following Performance Summary

and Highlights section introduces some key achievements and summarizes the results for selected key performance programs. Complete performance and budget information will be featured in the *Annual Performance Report*, scheduled for release in February 2015.

## SELECTED KEY ACHIEVEMENTS AND PERFORMANCE RESULTS

### Performance Management and Analysis

The diplomacy efforts of the Department of State continue to make significant strides toward a more secure, democratic and prosperous world for the benefit of the American people and the international community. The Department has developed more relevant, measureable, and outcome-oriented indicators that are used to assess progress against prior-year performance through examining trend data. The results of these efforts to improve strategic planning and performance management throughout the Department, both domestically and abroad, are articulated through the use of Performance Goals, which are identified in the Joint Strategic Plan (JSP), the Annual Performance Plan, and the Annual Performance Report:

**Performance Goals:** The GPRA Modernization Act of 2010 requires that agencies tie their annual performance information to the strategic objectives identified in their strategic plan. The primary method for accomplishing this link is through performance goals, which identify the specific, measurable, and attributable level of performance that the Department and USAID will strive to achieve and to which we can hold ourselves accountable. The performance goals provide measurable progress towards the achievement of the strategic objectives in



**U.S. Secretary of State John Kerry meets with members of his leadership team at the U.S. Department of State in Washington, D.C., March 10, 2014. Department of State**

the JSP and illustrate Department and USAID strategic and management priorities. The majority of the performance goals will be measured annually; five of the performance goals have been identified as Agency Priority Goals and will have data and progress updates available on a quarterly basis.

For the purposes of this AFR, we will highlight one Performance Goal and one indicator for most Major Program Areas that demonstrate how the Department manages performance.

## MAJOR PROGRAM AREAS

### Peace and Security

Today, the United States faces diverse and complex security challenges. Hostile nation states, violent extremists, transnational organized crime, unaccountable or abusive governance, weak rule of law, and inter- and intra-state conflict all affect civilian security, international stability and prosperity, and directly threaten U.S. interests and foreign policy objectives. To meet these challenges, we must

secure the world's most dangerous weapons and material; prevent the rise of criminal and insurgent groups; mitigate the effects of transnational crime; dismantle al-Qa'ida, its affiliates and adherents, and other terrorist organizations and deny them new recruits; strengthen rule of law globally; counter threats posed in cyberspace; reaffirm and support the balance between individual rights and collective security;

and empower women to play an equal role in solving global security problems. Below, we highlight one way the Department enhances Peace and Security—through the nonproliferation of weapons of mass destruction (WMD).

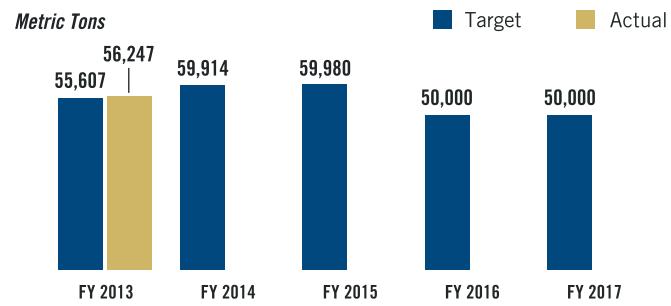
Among the arms control and nonproliferation priorities we pursue are:

- Bolstering the Nuclear Nonproliferation Treaty, given Iranian and North Korean violations, and the entire global nuclear nonproliferation regime, given that traffickers and terrorists seek to acquire nuclear weapons.
- Preventing terrorists from acquiring weapons of mass destruction, particularly nuclear or radiological materials and biological agents.
- Protecting the United States, our deployed forces, and our allies and partners from the threat of ballistic missile attack.

The Department has multiple Performance Goals to track progress towards this Major Program Area, one of which is through the following Performance Goal (from JSP 2.4.1, Arms Control and Nonproliferation): By September 30, 2017, achieve key milestones to promote arms control and nonproliferation by implementing the President's Prague Agenda of steps toward a world without nuclear weapons; impeding missile proliferation threats; and strengthening implementation and verification of international arms control agreements.

**Discussion.** The United States looks to increase U.S. and international security by negotiating and implementing arms control agreements and ensuring their verification; strengthening the global nuclear nonproliferation regime; securing WMD and destabilizing conventional weapons and disrupting their proliferation; defending against ballistic missiles; and preventing terrorist acquisition of WMD. One way the Department measures success towards achieving this Performance Goal is by tracking the amount of chemical weapons convention prohibited schedule chemicals decreased around the globe (in metric tons). Actual results and projected targets for achieving this key indicator follow.

**Key Indicator: Amount of Chemical Weapons Convention prohibited schedule chemicals decreased around the globe (in metric tons)**



### Democracy, Human Rights and Governance

The United States supports the expansion of democracy abroad because countries with freely elected, accountable governments contribute to a freer, more prosperous, and peaceful world. Democracies are our strongest partners on security, trade, energy, and the environment, in peace and conflict. Our support for democratic ideals supplies a lifeline for individuals striving for change, and is our greatest strength in combating violent extremism. Democratic governments work with the United States to build consensus and solve problems on the global stage. Their respect for the pluralism of ideas, inclusiveness, and vibrant civil societies leads to innovation and entrepreneurship that benefits all.

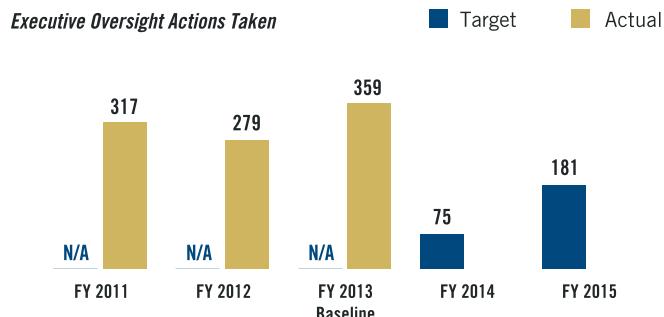
The State Department and USAID therefore work to strengthen democratic institutions and processes including through improved electoral administration, enhanced citizen oversight and civic participation, legislative frameworks that protect fundamental freedoms, and political party-building. Because there is no democracy without the inclusion of women and underrepresented groups, the U.S. Government also works to ensure their full participation in every aspect of these processes. Strong, moderate, issues-based democratic parties are particularly integral to ensuring healthy political debate and progress that recognizes the importance of all voices in a society.

However, only a nation itself—its people—can truly bring about sustainable democracy within its borders. Studies show that democratic progress can take decades, and setbacks are common. Consistent U.S. engagement is necessary to contribute to sustainable progress.

The Department has multiple Performance Goals to track progress towards this Major Program Area, one of which is through the following Performance Goal (from JSP 4.1.1, Strengthen Democratic Institutions): By September 30, 2017, identify and pursue democratic institution-building priorities in 20-25 countries where democratic institutions are weak or missing.

**Discussion.** The promotion of human rights and democracy is one of the four pillars of the National Security Strategy and a Department mandate, as set forth in the Foreign Assistance Act, the *Advance Democratic Values, Address Nondemocratic Countries, and Enhance Democracy Act*, and other laws. Our partners are those government institutions and officials working for democratic progress on behalf of their countries and civil society organizations that are doing the same. One way the Department measures success towards achieving this Performance Goal is by tracking the number of executive oversight actions taken by legislature receiving U.S. Government assistance. Below are actual results and projected targets for achieving this key indicator.

#### Key Indicator: Number of Executive Oversight Actions Taken by Legislature Receiving U.S. Government Assistance



#### Health, Education and Social Services

The United States and other countries are helping one billion people by 2030 through investments that improve economic opportunity, health, food security, education, stability, and accountable governance. While we cannot stop shocks from happening, we are committed to doing more to help people build the resilience to withstand them. One high priority focus area is HIV/AIDS assistance. In low- and middle-income countries around the world, recent studies reveal that HIV disproportionately impacts key populations and demonstrate the existence of concentrated epidemics in these groups.

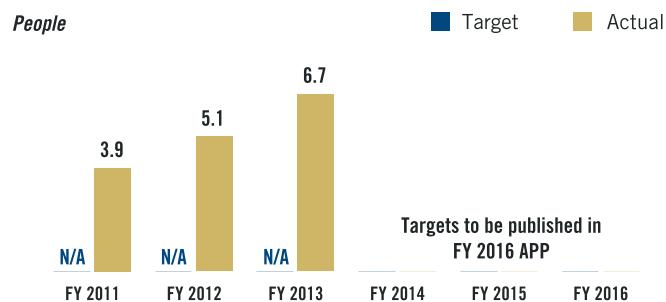
The U.S. Government's HIV/AIDS assistance, known as the President's Emergency Plan for AIDS Relief and directed by the Office of the U.S. Global AIDS Coordinator, is linked to that of other major bilateral and multilateral actors in the global response to AIDS. The U.S. Government has been instrumental in leading a reform agenda at the Global Fund to maximize the impact of its resources. The U.S. Government hosted the Global Fund's Fourth Replenishment Conference in Washington, in December 2013, and it was the most successful replenishment in the Global Fund's history.

Success in achieving an AIDS-free generation will depend on a large number of actors including partner countries, donor nations, civil society, people living with HIV/AIDS, faith-based organizations, the private sector, foundations, and multilateral institutions.

The Department has multiple Performance Goals to track progress towards this Major Program Area, one of which is through the following Performance Goal (from JSP 2.5.1, Create an AIDS-Free Generation): By September 30, 2017, U.S. health assistance for combating HIV/AIDS will support progress in creating an AIDS-free generation by increasing the number of people receiving comprehensive, evidence-based HIV/AIDS prevention, care, and treatment services.

**Discussion.** The U.S. Government will continue to implement programs related to the following interventions: prevention of mother-to-child transmission; antiretroviral treatment for people living with HIV; voluntary medical male circumcision for HIV prevention; and HIV testing and counseling, condoms, and other evidence-based and targeted prevention activities. One way the Department measures success towards achieving this Performance Goal is by tracking the number of adults and children with advanced HIV infection receiving antiretroviral therapy. Actual results and projected targets for achieving this key indicator follow.

**Key Indicator: Number of Adults and Children with Advanced HIV Infection Receiving Antiretroviral Therapy (in millions)**



**Humanitarian, Economic Development and Environment**

The Department of State partners with the Department of Commerce to advocate for U.S. companies bidding on foreign government tenders, to help U.S. companies find new markets for exports, to continue policies that open markets to trade and investment, and to encourage investment in the United States. The ability of U.S. companies to bid successfully on foreign government tenders is a measure of our success working with other governments to negotiate market opening agreements and resolve regulatory issues, and in ensuring fairness for our companies in the face of aggressive foreign competition. In addressing Economic Development and the Environment, sustainable and secure sources of energy are fundamental to global economic growth, prosperity, and stability. Global energy demand is expected to increase nearly 40 percent by 2030, with more than 90 percent of that increase occurring in developing and emerging market countries. Without effective action, this increasing demand will lead to greater emissions causing further climate change.

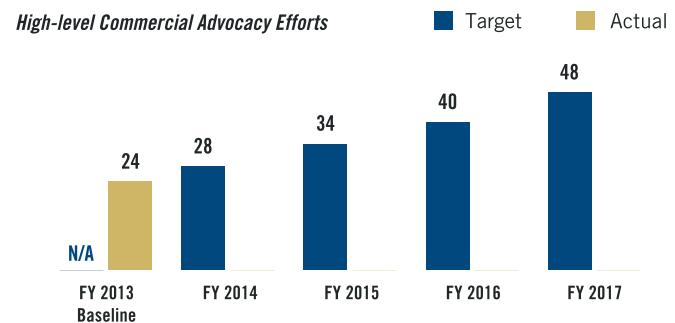
Expanding access to future markets, investment and trade involves formal trade agreements, setting international standards that enable fair competition, and working level collaboration to create demand for U.S. products and services. Agreements are important, but only open the door. U.S. firms still have to win contracts. Through our economic and diplomatic work we set the stage for U.S. companies to enter new markets and then highlight the attributes of U.S. firms; promote technical, scientific and innovation cooperation that can lead to common or mutually accepted standards, and heighten interest in U.S. technology and services. One of the clearest indicators of our success in these activities that facilitate increased investment and trade is the ability of U.S. firms to win foreign-sponsored

projects. When an American supplier is selected, it shows that required elements are in place for U.S. firms to succeed.

The Department has multiple Performance Goals to track progress towards this Major Program Area, one of which is through the following Performance Goal (from JSP 1.1.1, Advocacy to Support U.S. Export of Goods and Services): By September 30, 2017, using 2013 baseline data, support increased exports of U.S. goods and services by: (1) doubling appropriate commercial advocacy for U.S. businesses by ambassadors and Assistant Secretary or higher officials and; (2) increasing the number of international students studying in the United States by an average of five percent per year.

**Discussion.** Strategies to achieve this Performance Goal: include advocacy in high-level bilateral meetings and through joint host nation/Ambassador Direct Line calls; take advantage of large, multi-lateral meetings to conduct high-level commercial advocacy; and develop a culture of advocacy within the Department, making it a standard component of high-level bilateral meetings. One way the Department measures success towards achieving this Performance Goal is by tracking the number of State Department high-level commercial advocacy efforts to support U.S. export of goods and services. Below are actual results and projected targets for achieving this key indicator.

**Key Indicator: Number of State Department High-level Commercial Advocacy Efforts to Support U.S. Export of Goods and Services**



**International Organizations and Commissions**

The United States continued to strengthen its leadership in a host of UN agencies and organizations in support of U.S. national interests and to advance shared objectives. U.S. leadership in these venues is often instrumental in driving important initiatives, highlighting the need for assertive

action, and blocking counterproductive initiatives from undemocratic member states. In the absence of active U.S. presence across the international system, including at the United Nations, there is little reason to believe that U.S. national interests would or could be as energetically or successfully protected and promoted.

U.S. leadership was evident in the widest range of UN organizations and other bodies, from the UN Security Council, which applied its focus to the complex situations in Syria, Sudan, and Somalia, to the International Atomic Energy Agency, which sustained international attention on Iran's failure to comply with its international nuclear obligations related to its nuclear program, to the UN Human Rights Council, which recently passed five resolutions condemning human rights abuses and violations in Syria, adopted an important resolution on freedom of association and assembly, renewed the mandate of the Iran Special Rapporteur, and established new mandates for a Special Rapporteur on Belarus and a Special Rapporteur on Eritrea, among other accomplishments.

### Diplomatic and Consular Programs

Twenty-first century diplomatic and development challenges demand innovative approaches to create transformational solutions. In an era when information is disseminated instantaneously worldwide, our ability to engage quickly and effectively with the multitude of stakeholders, customers, and audiences is a core competency for our high-performing, motivated professionals. To meet these challenges also requires a flexible, nimble and efficient support platform for our professionals who are representing the United States around the world. This support platform is one way the Department provides enhanced Diplomatic and Consular Services.

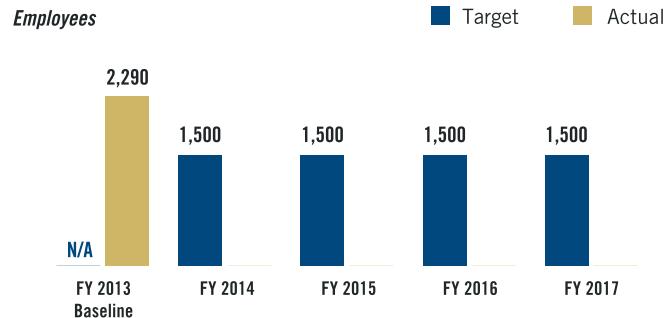
As the number and variety of our activities continue to grow, our ability to keep our personnel safe from physical and virtual threats is a top priority. In 2013, Congress provided an additional \$1.2 billion in security related capital funds, enabling us to build new, more secure facilities and mitigate risks in our existing facilities. We need to ensure that all personnel, whether they are diplomats, development professionals, security agents or family members, receive the right training at the right time so that everyone is a contributor to our overall security. Additionally, per Homeland Security Presidential

Directive 12 (HSPD-12), every U.S. Government department and agency will improve their protection against unauthorized system and facility access through the use of an advanced identity management mechanism. Ensuring that only the right people are allowed on our systems, coupled with an increasingly sophisticated cybersecurity infrastructure means that we are able to carry our mission while maintaining our security.

The Department has multiple Performance Goals to track progress towards this Major Program Area, one of which is through the following Performance Goal (from JSP 5.1.5, A Secured Diplomatic and Development Platform): By September 30, 2017, the Department and USAID will: relocate 6,000 U.S. Government employees into more secure and functional facilities; ensure that 100 percent of all State and 100 percent of USAID personnel use Personal Identity Verification (PIV) Card authentication as required by Homeland Security Presidential Directive 12 (HSPD-12); achieve 80 percent completion on a Foreign Affairs Security Training Center toward a full training capability in FY 2018; and neutralize cyber threats detected against the Department's network and assets.

**Discussion.** Strategies to achieve this Performance Goal: strong authentication to ensure only authorized employees have access to Federal information systems by requiring a higher level of assurance following the HSPD-12 PIV standard; continue to build more secure, functional, and safer facilities overseas for our personnel; and improve our ability to mitigate cyber threats through the Foreign Affairs Cybersecurity Center. One way the Department measures success towards achieving this Performance Goal is by tracking the number of U.S. Government employees overseas moved into secure, safe, and functional facilities. Actual results and projected targets for achieving this key indicator follow.

### Key Indicator: Number of U.S. Government Employees Overseas Moved Into Secure, Safe, and Functional Facilities



## Administration of Foreign Affairs

The Department of State and USAID drive the realization of U.S. foreign policy and assistance objectives through our diplomatic and development activities. In the 21st Century, effective engagement with international partners, stakeholders, customers, and audiences requires fundamental shifts that involve applying new technologies and innovative approaches for strengthening collaboration, coordinated and integrated strategic planning linked to budget priorities, and expanding our internal and external networks. Innovations at State and USAID make it possible to deliver results on a larger scale while simultaneously pursuing more strategic, focused, sustainable, and results-oriented approaches that maximize the impact of our development dollars. Evidence-based planning and increased operational efficiency and effectiveness are among the factors accounting for the impressive improvements in performance and results.

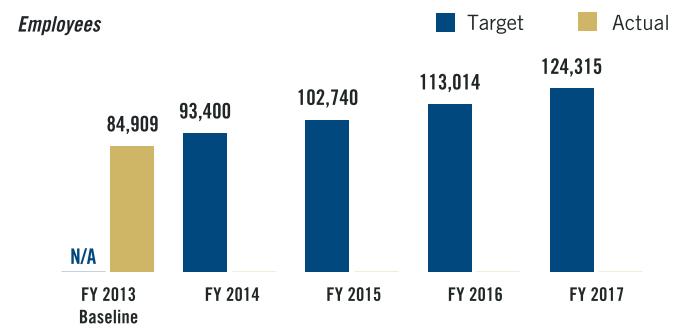
Improving our collaboration with our internal and external customers and stakeholders and advancing our digital communication strategy to better engage with our various audiences and counter extremist messages are key priorities for this Major Program Area. To facilitate collaboration and enhance transparency, USAID and State have embraced the President's Open Government and Data Initiatives, which support efforts to create a more efficient, effective, and accountable Federal Government.

The Department has multiple Performance Goals to track progress towards this Major Program Area, one of which is through the following Performance Goal (from JSP 5.1.3, Stakeholder Collaboration and Audience Engagement): By September 30, 2017, increase the number and effectiveness of communication and collaboration tools that leverage interactive digital platforms to improve direct engagement with both domestic and foreign publics. This will include increasing the number of publicly available data sets and

ensuring that USAID-funded evaluations are published online, expanding publicly available foreign assistance data, increasing the number of repeat users of International Information Programs' digital services, and better directly countering extremist messaging via the Department's Center for Strategic Counterterrorism Communications.

**Discussion.** Strategies to achieve this Performance Goal: increase the creation of content that can be distributed over electronic platforms, especially those that facilitate audience interaction; use audience demographic and technographic information in designing products and services for foreign audience outreach in the National Security Strategy-identified priority regions of Africa, Asia, and the Middle East; and increase the creation of content and programs that take into account the language, style, and format in order to increase resonance with foreign audiences. One way the Department measures success towards achieving this Performance Goal is by tracking the change in the number of repeat users of International Information Programs' (IIP) digital services, platforms and products. Below are actual results and projected targets for achieving this key indicator.

### Key Indicator: Change in the Number of Repeat Users of International Information Programs (IIP) Digital Services, Platforms and Products



## MAXIMIZING AMERICA'S INVESTMENT THROUGH INNOVATION, EVALUATION, AND BY MEETING MANAGEMENT CHALLENGES

### EVIDENCE AND EVALUATION

The Department continues efforts to strengthen the use of data and evidence to drive better decision making and achieve greater impact. As highlighted in this year's submission, the Department continues to (1) use evidence, evaluation, and data as tools to improve program outcomes and (2) scale up new approaches that have been tested and shown to work.

In FY 2012, the Department published a Department of State Program Evaluation Policy. The policy requires that all large programs, projects, and activities be evaluated at least once in their lifetime or every five years, whichever is less. Bureaus determine which programs, projects or activities to evaluate; upon request, BP and F assist in this effort. For most bureaus, a "large" program, project, or activity is one whose dollar value equals or exceeds the median program/project/activity size for the bureau. Noting the diversity of undertakings at State, this policy refers broadly to programs, projects, and activities—such as diplomatic functions—so that bureaus identify the level at which most of their funding is used and apply the policy accordingly, making sure that significant undertakings are evaluated regardless of whether they are programs, projects, or activities.

Each Department bureau is required to evaluate two to four projects/programs/activities from FY 2012 through FY 2014. For more information on the Program Evaluation Policy, please visit <http://www.state.gov/s/d/rm/rls/evaluation/2012/184556.htm>.

### OVERVIEW OF DEPARTMENT PROGRESS AND PLANS

The Department has many success stories this past year on using evidence and evaluation to drive actionable implications on budget, policy, and management. Three of the methods the Department uses to exchange information on evidence and evaluation follow.

#### *Provide program managers with skills to manage and conduct evaluations through professional development:*

The Department funds two courses that are free to all Department employees. The first course teaches the principles of evaluations, specifically for managing an evaluation contract, while the second course focuses more on data collection and evaluation methodologies.

#### *Foster knowledge sharing through the Evaluation Community of Practice and the Annual Evaluation Institute:*

**Institute:** The Department has an Evaluation Community of Practice that meets monthly to discuss policy issues and learn best practices from each other. The Department also hosts the Annual Evaluation Institute, in which the Department's evaluation community and key Department leaders, including the Department's Under Secretaries and other Senior Officials, review how they have used the results of the evaluations to validate their assumption or inform their decisions to make programmatic changes.

*Provide program managers with easy to use, accessible tools to simplify management of evaluations and the dissemination of evaluations:* The Department continuously seeks ways to simplify the evaluation process for its program managers. In 2012, the Department awarded an Indefinite Delivery/Indefinite Quantity contract that provided a common resource and repeatable process for bureaus to access evaluation expertise in an efficient manner. In 2013, the Department released the Evaluation Management System that provides Department organizations with a centrally-managed platform for managing program evaluations under the Evaluation Policy. The Evaluation Management System was upgraded in 2014 to reflect customer desires, such as leveraging query capabilities available in commercial search engines. In addition to providing a tool for evaluation managers to organize their work and collaborate, the system is designed to gather data on evaluations and to link the evidence provided by those evaluations to the Department strategic goals and strategic objectives.

The Department has multiple priorities for the coming year to gather evidence and conduct evaluations to enable better decision making and achieve greater impact. Three areas to highlight are Economic Diplomacy, Global Climate Change, and Consular Services.

## ECONOMIC DIPLOMACY

### ***Most Significant Accomplishments and Highest Priorities in the Coming Year***

The interagency, led by the National Economic Council, the Department of Commerce, and the Department of State, set the following goal to support the CAP Goal for Job Creating Investment.

## FOCUS

### Protecting the Health of The Ocean: A Worldwide Challenge

The ocean covers almost three quarters of our planet and is critical to maintaining life on earth. It regulates climate and weather; generates 50 percent of the oxygen we breathe; absorbs excess carbon; and provides food and a source of income for millions of people. But the ocean is at grave risk due to human activity. Challenges include overfishing, garbage patches, dead zones, and ocean acidification.

Many of the world's fish stocks are depleted. Overfishing, harmful fishing practices, and illegal, unreported and unregulated fishing harm the ecology of the ocean and reduce the long term potential of fish stocks to provide food and jobs.

An estimated 80 percent of marine pollution originates on land – pollutants that threaten wildlife and the health and safety of humans. Nutrients, coming from sources such as agricultural runoff, sewage and wastewater discharges, create “dead zones” where fish and other marine life cannot thrive. Marine debris, such as trash and other solid material, enters ocean and coastal waters and threatens wildlife and the health and safety of humans.

As the ocean absorbs carbon dioxide from the atmosphere, it becomes more acidic. Many marine organisms are unable to adapt to the new conditions. Today, the ocean is 30 percent more acidic than it was before the Industrial Revolution.

The causes of ocean degradation are clear – and so are the actions needed to restore the ocean's health. The United States has begun to restore fish stocks and reduce the flow



**U.S. Secretary of State John Kerry attends and delivers remarks at the “Our Ocean” Conference lunch discussion with Prince Albert II of Monaco, at the U.S. Department of State in Washington, D.C., June 16, 2014. Department of State**

of waste into the marine environment and has launched intensive studies on the effects of rising acidity levels on sea life by promoting Sustainable Fisheries. Effectively responding to these challenges requires innovation, cooperation, and action among governments, non-governmental organizations, industry, and other stakeholders. Working together, we will marshal the solutions we have today and create new solutions for tomorrow.



For more information, a video entitled “Help Protect Our Ocean” may be viewed at: <http://www.youtube.com/watch?v=sOifRu6WdXs&feature=youtu.be>

**Goal:** Improve Federal investment tools and resources, while also increasing interagency coordination, to encourage foreign direct investment, spurring job growth.

There are multiple challenges and opportunities the United States faces in Job Creating Investment. Some nations have mature and robust inward investment promotion programs at the national-level; creating a similar whole-of-U.S.

Government approach and moving towards a one-stop-shop system can assist investors. There are misperceptions regarding the attractiveness of the United States as an investment destination, and perceived or real barriers to investment in the United States by investors. There is a desire to change cultures within U.S. Federal agencies to actively promote investment and to collaborate more closely to assist investment clients.

As reported for FY 2014, the Department and the interagency made recent progress towards creating investments in U.S. jobs. We successfully implemented the first-ever SelectUSA Investment Summit in October 2013. We completed annual action plans for all SelectUSA focus markets. As an interagency, we signed Memorandums of Intent with both Apex-Brazil and ProMexico.

SelectUSA hosted a re-shoring event on Capitol Hill in June 2014, and the SelectUSA Investment Summit has been announced for March 2015 in Washington, D.C. For more information on the Job Creating Investment CAP Goal, please visit <http://www.performance.gov/node/3408>.

## GLOBAL CLIMATE CHANGE

### *Most Significant Accomplishments and Highest Priorities in the Coming Year*

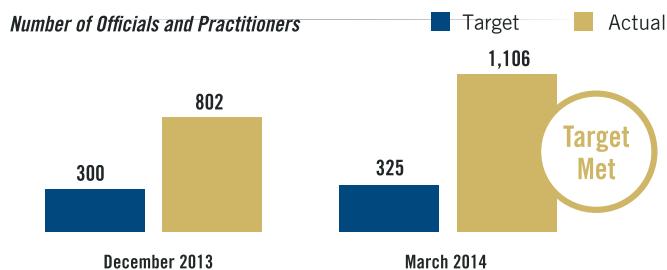
The Department set the following Global Climate Change APG to set targets and measure progress in FY 2014 through FY 2015, and to guide investments.

**Goal:** Enable economic growth concurrent with significant reductions in national emissions trajectories through 2020 and the longer term by supporting the development and implementation of low emission development strategies (LEDS). By the end of 2015, U.S. bilateral assistance under LEDS will reach

at least 25 countries (from the previous baseline of 22 countries) and will result in the achievement of at least 45 major individual country milestones, each reflecting a significant, measureable improvement in that country's development or implementation of LEDS. Also by the end of 2015, at least 1,200 additional developing country government officials and practitioners (from a baseline of 0) will strengthen their LEDS capacity through participation in the LEDS Global Partnership and that capacity will be meaningfully applied to 25 countries (from a baseline of 0).

As reported in FY 2014, the U.S. Government team exceeded its targets for quarter one and quarter two in FY 2014 for this Agency Priority Goal. The cumulative number of officials and practitioners with strengthened capacity through participation in the Low Emission Development Global Partnership (LEDS GP) was 802 in quarter one and 1,106 in quarter two, exceeding the quarterly targets of 300 and 325, respectively.

### Illustrative Indicator for Global Climate Change APG:

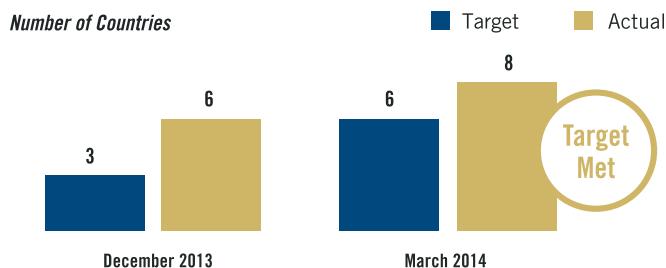


**Illustrative Indicator:** This indicator represents officials and practitioners for which the U.S. Government has provided one or more person-hours of training or assistance through participation in LEDS Global Partnership activities.

**Target Met/Not Met:** Target Met.

**Data Source:** USAID missions in respective countries.

The cumulative number of countries for which we confirmed that capacity strengthened through LEDS GP participation has been meaningfully applied was six for quarter one and eight for quarter two, exceeding the targets of three and six, respectively.

**Illustrative Indicator for Global Climate Change APG:**

**Illustrative Indicator:** This indicator represents countries for which U.S. Government support through the LEDS Global Partnership (e.g., trainings, workshops, webinars, technical assistance) has led to one or more strategies, plans, policies, processes, or activities being planned, proposed, strengthened or adopted by a country to support LEDS development and implementation.

**Target Met/Not Met:** Target Met.

**Data Source:** USAID missions in respective countries.

The State and USAID climate change teams will continue to use evidence and evaluation to support the implementation strategy for this APG through a series of interagency discussions and regular enhancing capacity LEDS management meetings convened by the USAID Global Climate Change Coordinator and the Deputy Special Envoy for Climate Change.

The U.S. Government's work on LEDS has two primary components:

1. Providing targeted technical assistance and capacity building for LEDS. Examples of this assistance include: 1) supporting the development of new strategies and/or enhancing and strengthening existing strategies, 2) working with government and civil society partners to strengthen in-country human and institutional capacity, including through the provision of tools and approaches to assist with LEDS, and 3) supporting the implementation of LEDS. Additional examples of types of technical assistance provided include: greenhouse gas inventory support, emissions and economic modeling and projections, policy analysis, and financing, as well as implementation planning and programs for specific low carbon growth options.

2. Promoting a shared global knowledge base on LEDS through the LEDS Global Partnership. The LEDS Global Partnership—a partnership of more than 100 countries and international programs—enhances coordination, information exchange, and cooperation to advance climate-resilient low emission growth. It does this through three regional platforms for cooperation and more than nine global working groups focused on issues ranging from designing and implementing LEDS, to measuring and assessing the impact of low emissions development pathways, to financing the implementation of low emission development policies and technologies.

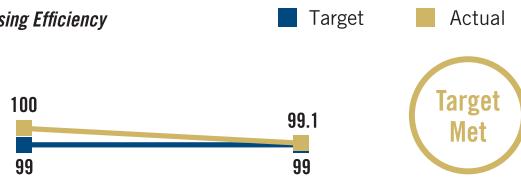
**CONSULAR SERVICES*****Most Significant Accomplishments and Highest Priorities in the Coming Year***

The Department set the following Consular Services APG to set targets and measure progress in FY 2014 through FY 2015, and to guide investments.

**Goal:** Through September 30, 2015, maintain a 99 percent rate of all passport applications processed within the targeted time-frame and ensure 80 percent of non-immigrant visa applicants are interviewed within three weeks of the date of application.

As reported in FY 2014, during quarter one and quarter two of FY 2014, the Department continued to meet the goal set out by E.O. 13597 by implementing new efficiencies and process improvements to keep interview wait times for visa appointments to three weeks or less at all posts. As of May 13, 2014, over 97 percent of visa applicants could receive an appointment within three weeks of submitting an application.

During FY 2014 quarter one and quarter two, the Department continued to exceed its goal of processing 99 percent of passports within the targeted timeframe. Passport Services processed 100 percent and 99.1 percent of passport applications within the service level commitment to the American public in quarters one and two, respectively. Passport Services anticipates that it will continue to exceed its goal in quarter three.

**Illustrative Indicator for Consular Services APG:****Passport Processing Efficiency**

December 2013

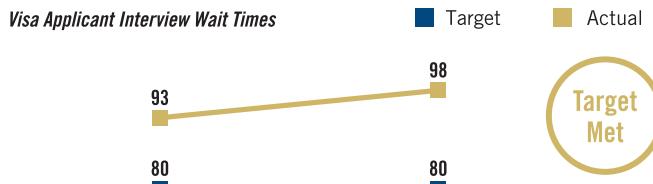
March 2014

Target Met

**Illustrative Indicator:** This indicator measures the percentage of passport applications processed within the targeted timeframe, as shown on the Department's website. For this indicator, quarterly data is presented because it is not an annual cumulative measure.

**Target Met/Not Met:** Target Met.

**Data Source:** Bureau of Consular Affairs at the Department of State.

**Illustrative Indicator for Consular Services APG:****Visa Applicant Interview Wait Times**

December 2013

March 2014

Target Met

**Illustrative Indicator:** This indicator measures the percentage of non-immigrant visa applicants that are interviewed within three weeks of the receipt of their visa application. For this indicator, quarterly data is presented because it is not an annual cumulative measure.

**Target Met/Not Met:** Target Met.

**Data Source:** Bureau of Consular Affairs at the Department of State.

## FOCUS

### The United States and Afghan Women: An Ongoing Commitment

In aligning with Strategic Goal number four, the Department of State has helped women from all walks of life. Today more girls than ever are enrolled in school, opening businesses, running for office, and living longer and healthier lives.

The United States support includes:

**The Advancement of Health** by increasing the number of health care facilities from 500 to 2000 since 2001 and increasing a woman's life expectancy from 44 years to 64 years since 2001 and reducing infant mortality from 1,600 per 100,000 births to 327 per 100,000 births since 2002.

**The Expansion of Educational Opportunities** by increasing female literacy to nearly 13 percent nationwide and helping nearly 120,000 girls graduate from secondary school and enroll about 40,000 in public and private universities.

**The Improvement of Rule of Law and Access to Justice** by increasing the number of women's shelters from 10 to 29 and the number of provinces with a shelter from six to 18 since 2011. Also, the number of female judges has increased from 50 to 165 in 2003 and prosecution offices on Elimination of Violence Against Women have been established in eight provinces.



Congresswoman Susan Davis and Congresswoman Renee Ellmers with members of the Bi-Partisan Women's Mother's Day CODEL (top) visit with Afghan female students at the Women's Resource Center at Marmal Airfield near Mazar E Sharif, Afghanistan, May 10, 2014. *Department of State*

**Opportunities for Political Participation** has improved with three women now serving as Cabinet ministers; women hold 68 out of 249 seats in the Afghan National Assembly and women now constitute 25 percent of the elected Provincial Councils.

The Department will continue to use evidence and evaluation to support the implementation strategy for this APG. To meet the demand for passports, CA has committed to creating an option for processing renewal applications online, reducing the level of effort required for issuing renewals requests. In FY 2012, CA successfully launched an online passport card pilot program, testing its ability to process securely applications for cards online from U.S. citizens who already had a valid passport book. Using the ConsularOne initiative, CA will take the lessons learned from the pilot in order to offer improved electronic transactions for passport book and passport card renewals.

With its focus on providing sufficient and flexible staffing to meet demand, the Department can meet the visa performance goal. CA tracks visa applicant wait times and reports average percentages on a weekly basis. Consular personnel continually balance efforts to meet growing demand with the need to conduct vigilant adjudications that uphold its world-class standard of secure processes and documents using these reports as guidelines for action. Efforts include deploying additional personnel to posts with growing visa demand, expanding the physical space in visa sections—particularly the number of interview windows—and upgrading to more modern systems and technologies. These advances allowed the Department to issue more than 9.9 million non-immigrant visas in FY 2014, a 55 percent increase from FY 2010.

The Consular Affairs Bureau will continue to replicate pilot projects that improve efficiency of the visa process. The Departments of State and Homeland Security previously implemented a pilot program that allows consular officers to waive in-person interviews for certain non-immigrant visa applicants renewing their visas is operational at 90 visa-processing posts in more than 50 countries. Consular officers have subsequently already waived interviews for more than 500,000 of these low-risk visa applicants. Consular officers can spend their time and resources more effectively evaluating higher-risk visa applicants and other applicants who require interviews. All of these applications have been thoroughly reviewed by a commissioned consular officer, and the applicant's fingerprints and biodata have undergone extensive database checks.

Another example of CA increasing the productivity and transparency of the visa application process has been the Global Support Strategy (GSS), a worldwide program that standardizes the process across all U.S. embassies and consulates. This standardization effort maximizes efficiency in the process and provides scalability to respond to fluctuations in demand. As of October 2013, there are 101 countries and 155 posts with awarded GSS contracts, including 17 countries currently in the transition process. These task orders represent 87 percent of worldwide non-immigrant visa volume for FY 2012. By the end of FY 2014, CA will have awarded contracts for the remaining 32 countries and 37 posts slated to receive GSS services.

## PLAN FOR EMBEDDING EVALUATION AND IMPROVEMENT IN NEW AND EXISTING PROGRAMS

The Department is committed to using performance management best practices, including where feasible and useful, program evaluation, to achieve the most effective U.S. foreign policy outcomes and greater accountability to our primary stakeholders, the American people. The Department's evaluation policy promotes program evaluations to contribute to learning and greater evidence-based decision making.

## MANAGEMENT CHALLENGES: PROVIDING AN INDEPENDENT ASSESSMENT OF THE AGENCY

In the 2014 annual assessment, the Department's Office of Inspector General (OIG) identified the most serious management and performance challenges for the Department. These challenges were identified for the following areas: Protection of People and Facilities; Managing Contracts, Acquisition, and Grants; Information Security and Management; Financial Management; Managing Posts in Conflict Areas; Rightsizing; Foreign Assistance Coordination and Oversight; Consular Operations; Leadership; and Public Diplomacy.

The OIG assessment may be found on the Other Information (OI) section of this report (see pages 118-125). In response to OIG's recommendations, the Department took a number of corrective actions. Information on management's assessment of the challenge and a brief summary of actions taken and actions remaining may also be found in the OI section.

# Financial Summary and Highlights

The financial summary and highlights that follow provide an overview of the 2014 financial statements of the Department of State (the Department). The independent auditor, Kearney & Company, audited the Department's Consolidated Balance Sheet for the fiscal years ending September 30, 2014 and 2013, along with the Consolidated Statements of Net Cost and Changes in Net Position, and the Combined Statement of Budgetary Resources<sup>1</sup>. The Department received an unmodified audit opinion on both its 2014 and 2013 financial statements. A summary of key financial measures from the Balance Sheet and Statements of Net Cost and Budgetary Resources is provided in the table below. The complete financial statements, including the independent auditor's reports, notes, and required supplementary information, are presented in Section II: Financial Information.

**Summary Table of Key Financial Measures (dollars in billions)**

Summary Consolidated Balance Sheet Data	2014	2013	% Change
Fund Balances With Treasury	\$ 47.5	\$ 47.6	0%
Investments, Net	17.8	17.4	2%
Property and Equipment, Net	19.0	17.6	8%
Cash, Receivables, and Other Assets	2.5	2.2	14%
<b>Total Assets</b>	<b>\$ 86.8</b>	<b>\$ 84.8</b>	<b>2%</b>
Accounts Payable	\$ 2.4	\$ 2.4	0%
After-Employment Benefit Liability	19.6	20.6	(5)%
International Organizations Liabilities	1.7	1.9	(11)%
Other Liabilities	1.4	1.5	(7)%
<b>Total Liabilities</b>	<b>\$ 25.1</b>	<b>\$ 26.4</b>	<b>(5)%</b>
Unexpended Appropriations	38.4	38.2	1%
Cumulative Results of Operations	23.3	20.2	15%
<b>Total Net Position</b>	<b>\$ 61.7</b>	<b>\$ 58.4</b>	<b>6%</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 86.8</b>	<b>\$ 84.8</b>	<b>2%</b>
Summary Consolidated Statement of Net Cost Data			
Total Cost and Gain/Loss on Assumption Changes	\$ 32.0	\$ 32.1	0%
Total Revenue	(7.0)	(7.0)	0%
<b>Total Net Cost</b>	<b>\$ 25.0</b>	<b>\$ 25.1</b>	<b>0%</b>
Summary Combined Statement of Budgetary Resources Data			
Unobligated Balance Brought Forward	\$ 21.9	\$ 17.5	25%
Appropriations	30.4	31.5	(3)%
Spending Authority from Offsetting Collections	11.1	10.4	7%
Other Resources (Adjustments)	1.1	1.2	(8)%
<b>Total Budgetary Resources</b>	<b>\$ 64.5</b>	<b>\$ 60.6</b>	<b>6%</b>

<sup>1</sup> Hereafter, in this section, the principal financial statements will be referred to as: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources.

To help readers understand the Department's principal financial statements, this section is organized as follows:

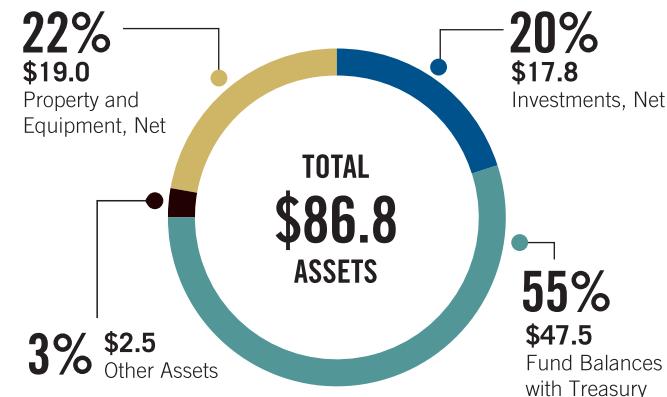
- Balance Sheet: Overview of Financial Position,
- Statement of Net Cost: Yearly Results of Operations,
- Statement of Changes in Net Position: Cumulative Overview,
- Statement of Budgetary Resources: Investing in Shared Security and Prosperity,
- The Department's Budgetary Position,
- Financial Management Systems Summary, and
- Limitation of Financial Statements.

## BALANCE SHEET: OVERVIEW OF FINANCIAL POSITION

The Balance Sheet provides a snapshot of the Department's financial position. It displays amounts of future economic benefits owned or available for use (Assets), amounts owed (Liabilities), and residual amounts (Net Position) at the end of the fiscal year.

**Assets.** The Department's total assets were \$86.8 billion at September 30, 2014, an increase of \$2 billion (2 percent) over the 2013 total. Other assets increased \$519 million as a result of advances recorded for reimbursable agreements with the Department of Defense and USAID and increases in cash and other monetary assets. Investments consist almost entirely of U.S. Government securities held in the Foreign Service Retirement and Disability Fund (FSRDF); Government agencies are, for the most part, precluded from making any other type of investment. Investments were up \$428 million

### ASSETS BY TYPE 2014 (dollars in billions)



because contributions and appropriations received to support the FSRDF were greater than benefit payments; the excess is required to be invested for future benefit payments.

Receivables decreased \$272 million due to collections received in the Diplomatic and Consular Programs and Overseas Building Operations Funds; in addition, Civil Monetary Penalty collections were greater than the recording of any new receivables from settled litigations.

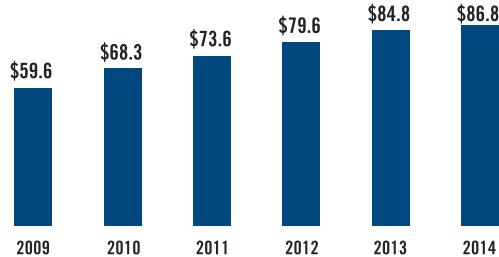
### Real Property Projects – 2014 Cost Activity (dollars in millions)

Project Name	Amount
Kabul, Afghanistan (New Annex Facility and Housing)	\$ 151
London, United Kingdom	135
Islamabad, Pakistan	119
Sanaa, Yemen	75
Oslo, Norway	68
Rabat, Morocco	60
Bishkek, Kyrgyzstan	55
Cotonou, Benin	53
Vientiane, Laos	44
Jakarta, Indonesia	40
<b>TOTAL</b>	<b>\$ 800</b>

Property and equipment increased by \$1.4 billion due to capital improvements to diplomatic facilities and the construction of new overseas embassy compounds. The table above shows the real property projects with the largest activity in 2014. They account for \$800 million of this increase. In addition, land increased by \$168 million primarily due to acquisitions in Ankara, Turkey for \$88 million and Dhahran, Saudi Arabia for \$40 million.

Fund Balances with Treasury, Investments and Property and Equipment comprise 97 percent of total assets for 2014 and 2013. The six-year trend in the Department's total assets is presented in the figure below.

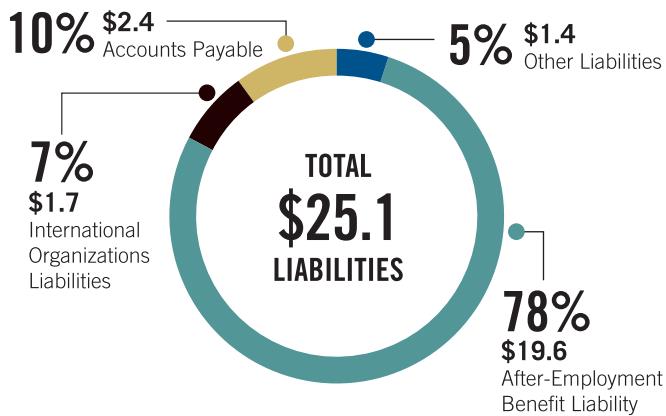
### TREND IN TOTAL ASSETS (2009 - 2014) (dollars in billions)



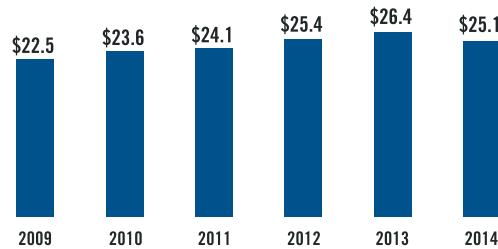
Many Heritage Assets, including art, historic American furnishings, rare books and cultural objects, are not reflected in assets on the Departments' Balance Sheet. Federal accounting standards attempt to match costs to accomplishments in operating performance, and have deemed that the allocation of historical cost through depreciation of a national treasure or other priceless item intended to be preserved forever as part of our American heritage would not contribute to performance cost measurement. The standards require only the maintenance cost of these heritage assets be expensed, since it is part of the government's role to maintain them forever in good condition. All of the embassies and other properties on the Secretary of State's Register of Culturally Significant Property, however, do appear as assets on the Balance Sheet, since they are used in the day-to-day operations of the Department.

**Liabilities.** The Department's total liabilities were \$25.1 billion at September 30, 2014, down \$1.3 billion (5 percent) between 2013 and 2014. The liability for future benefits payments to retired Foreign Service officers included in the After-Employment Benefit Liability comprises 78 percent of total liabilities. The After-Employment Benefits Liability decreased \$977 million (5 percent) mainly as a result of changes in the demographic assumptions identified in the 2013 Actuarial Experience Study; the rate changes resulted in a reduced liability calculated by the actuary. Also included in this total are other after-employment benefits for Foreign Service Nationals. Other Liabilities decreased by \$157 million (10 percent).

#### LIABILITIES BY TYPE 2014 (dollars in billions)



#### TREND IN TOTAL LIABILITIES (2009 - 2014) (dollars in billions)



**Ending Net Position.** The Department's net position, comprised of Unexpended Appropriations and the Cumulative Results of Operations, increased \$3.3 billion (6 percent) between 2013 and 2014. Unexpended Appropriations were up \$216 million; although the balance carried forward from the previous year increased \$2.9 billion, appropriations received in 2014 decreased by \$2.8 compared to 2013. Cumulative Results of Operations were up \$3.1 billion due in part to the expenditure of appropriations used to purchase property and equipment. In addition, significant gains resulting from changes in the After-Employment Liability impacted Cumulative Results of Operations; these gains were mainly a result of demographic assumption changes detailed in the 2008-2013 Experience Study.

#### STATEMENT OF NET COST: YEARLY RESULTS OF OPERATIONS

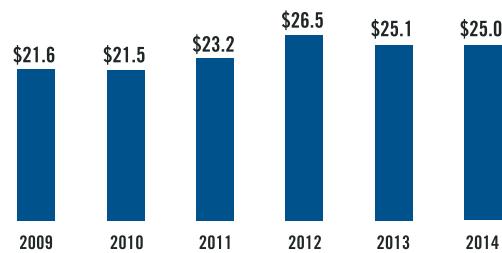
Commencing this year, the Statement of Net Cost presents the Department's net cost of operations by major program instead of strategic goal. The Department believes this is more consistent and transparent with its Congressional Budget submissions. Net cost is the total program cost incurred less any exchange (i.e., earned) revenue. The presentation of program results is based on the Department's major programs related to the major goals established pursuant to the Government Performance and Results Act (GPRA) of 1993, the GPRA Modernization Act of 2010, and the Department's Quadrennial Diplomacy and Development Review. As discussed in the Strategic Goals and Government-wide Management Initiatives section, the Department established new strategic goals and strategic priorities for 2014. Prior year costs from 2013 were reclassified for comparability. The total net cost of operations in 2014 equaled \$25 billion, a decrease of

\$100 million (1 percent) from 2013. This reduction of net costs was mainly due to decreases in the FSRDF actuarial liability due to pension assumption changes. This is offset by increases in spending for global health programs, humanitarian efforts and security.

The figure below shows the relationship between the Department's strategic goals described in the Strategic Plan and the major programs used to present the Statement of Net Cost and related disclosures.

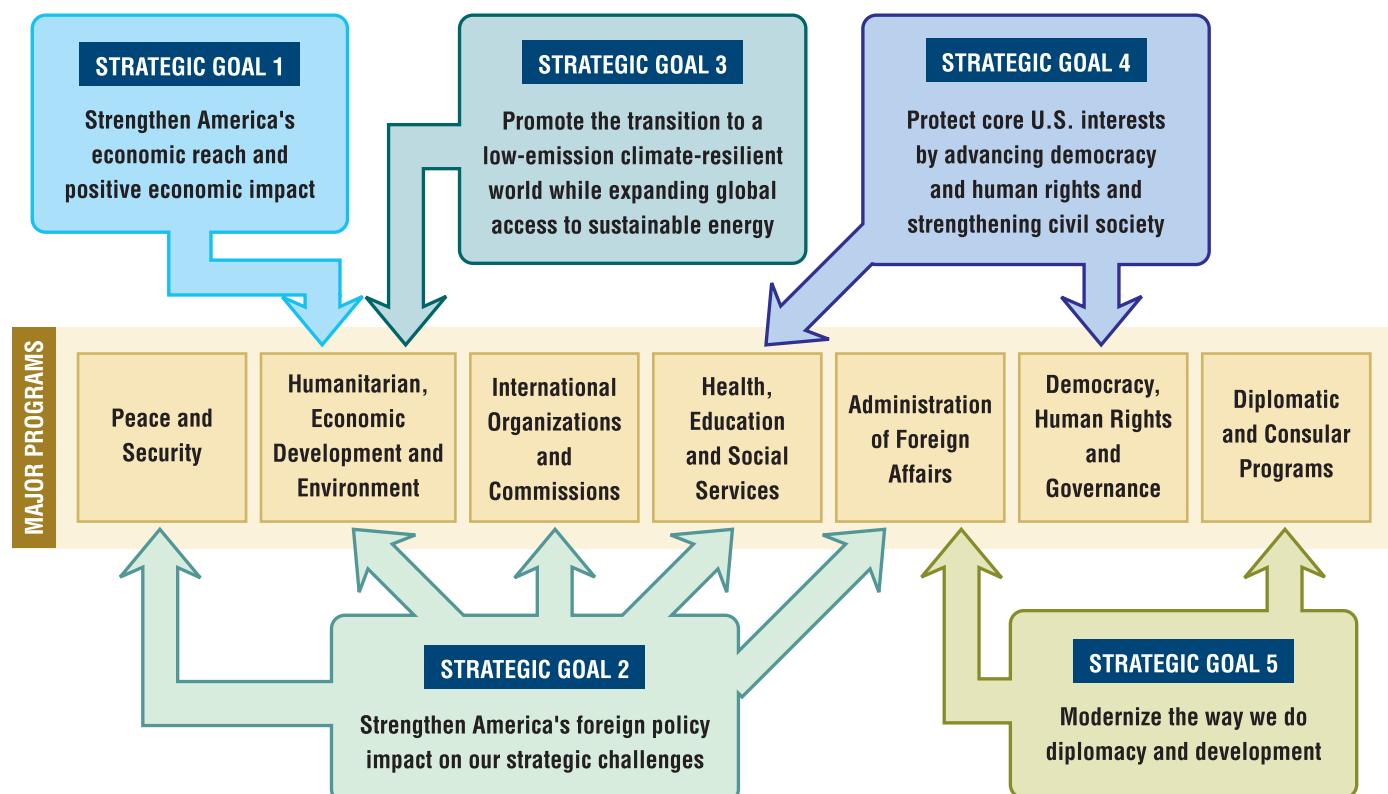
The six-year trend in the Department's net cost of operations from 2009 through 2014 is presented in the figure to the right. The \$3.4 billion (16 percent) overall increase since 2009 generally reflects costs associated with new program areas related to countering security threats and sustaining stable states, as well as the higher cost of day-to-day operations.

#### TREND IN NET COST OF OPERATIONS (2009 - 2014) (dollars in billions)

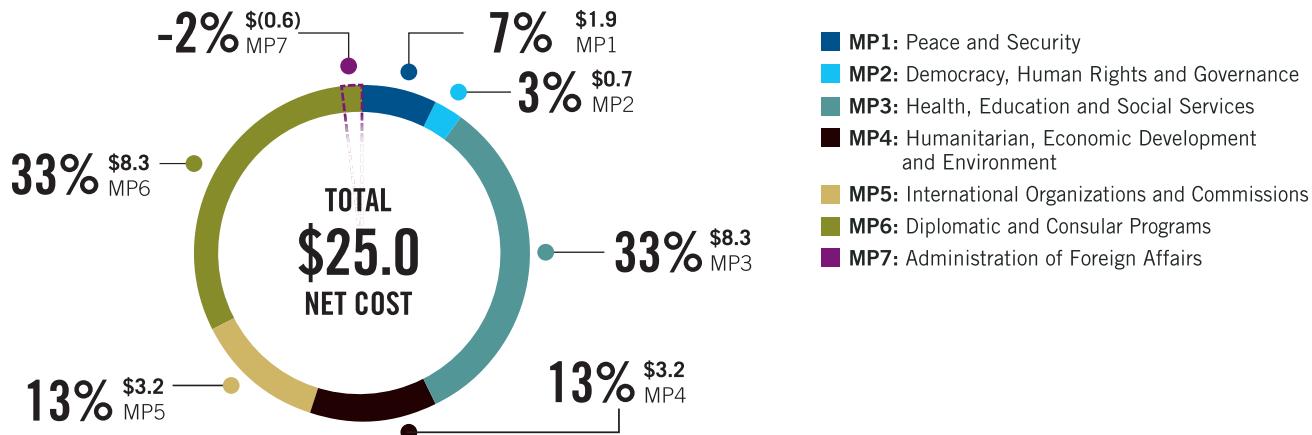


The figure on the next page illustrates the comparative results of operations by major program, as reported on the Statement of Net Cost. As shown, net costs associated with major programs three (Health, Education and Social Services) and six (Diplomatic and Consular Programs) represents the largest net costs in 2014 – a combined \$16.6 billion (66 percent). These net costs are comparable; though up slightly from 2013 amounts for these two programs – \$15.4 billion (61 percent).

#### RELATIONSHIP BETWEEN STRATEGIC GOALS AND MAJOR PROGRAMS



### NET COST OF OPERATIONS BY MAJOR PROGRAM 2014 (dollars in billions)

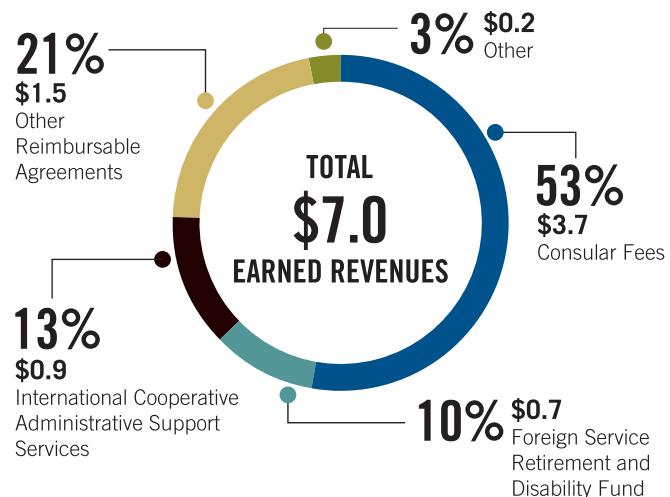


### EARNED REVENUES

Earned revenues occur when the Department provides goods or services to another Federal entity or the public. The Department reports earned revenues regardless of whether it is permitted to retain the revenue or remit it to Treasury. Revenue from other Federal agencies must be established and billed based on actual costs, without profit. Revenue from the public, in the form of fees for service (e.g., visa issuance), is also without profit. Consular fees are established on a cost recovery basis and determined by periodic cost studies. Certain fees, such as the machine readable Border Crossing Cards, are determined statutorily. The FSRDF receives revenue from employee/employer contributions, a U.S. Government contribution, and investment interest. Other revenues come from International Cooperative Administrative Support Services (ICASS) billings and Working Capital Fund earnings.

Earned revenues totaled \$7 billion for the fiscal year ending September 30, 2014, and are depicted, by program source, in the figure to the right. The major sources of revenue were from consular fees (\$3.7 billion or 53 percent), reimbursable agreements (\$1.5 billion or 21 percent) and ICASS earnings (\$0.9 billion or 13 percent). These revenue sources totaled \$6.1 billion (87 percent). Overall, revenue declined by less than 1 percent – \$45 million from 2013 to 2014. This decrease is primarily a result of a reduction in property disposition gains offset by an increase in fees from machine readable visas and other consular fees.

### EARNED REVENUES BY PROGRAM 2014 (dollars in billions)



### STATEMENT OF CHANGES IN NET POSITION: CUMULATIVE OVERVIEW

The Statement of Changes in Net Position identifies all financing sources available to, or used by, the Department to support its net cost of operations and the net change in its financial position. The sum of these components, Cumulative Results of Operations and Unexpended Appropriations, equals the Net Position at year-end. The Department's net position at the end of 2014 was \$61.7 billion, a \$3.3 billion (6 percent) increase from the prior fiscal year. This change primarily resulted from the \$0.2 billion increase in Unexpended Appropriations and a \$3.1 billion increase in Cumulative Results of Operations.

## STATEMENT OF BUDGETARY RESOURCES: INVESTING IN SHARED SECURITY AND PROSPERITY

The Statement of Budgetary Resources (SBR) provides data on the budgetary resources available to the Department and the status of these resources at the fiscal year-end. The SBR displays the key budgetary equation: Total Budgetary Resources equals Total Status of Budgetary Resources.

The Department's budgetary resources consist primarily of appropriations, spending authority from offsetting collections, unobligated balances brought forward from prior years, and other resources. The figure below highlights the budgetary trend over the fiscal years 2009 through 2014. As illustrated, total resources have increased by \$14.4 billion (29 percent) over the six-year time frame. Over this period, the non-appropriated resources – composed of offsetting collections, unobligated balances brought forward, and recoveries of prior-year unpaid obligations – represent an increasing proportion of total budgetary resources (from 41 percent in 2009 to 53 percent in 2014). A comparison of the two most recent years shows a \$3.9 billion (6 percent) increase in total resources since 2013. This change resulted mainly from increases in prior unobligated balances (\$4.4 billion) and offsetting collections (\$0.7 billion), net of decreases in appropriations (\$1.1 billion) and other resources (\$0.1 billion).

### TREND IN TOTAL BUDGETARY RESOURCES (2009 - 2014) (dollars in billions)



## THE DEPARTMENT'S BUDGETARY POSITION

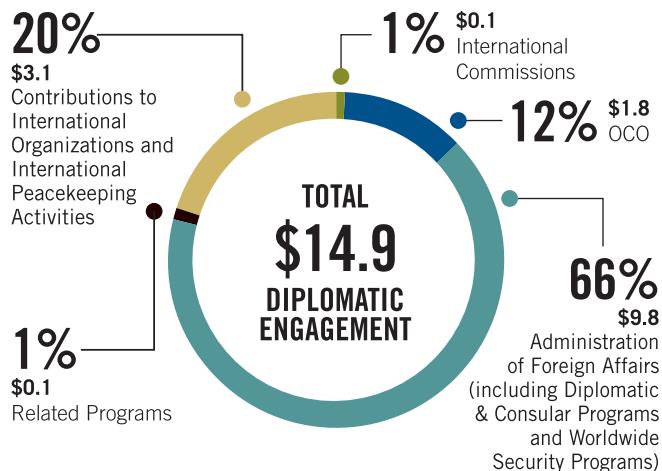
The FY 2014 budget for the Department was funded by the FY 2014 Omnibus Appropriation (Public Law 113-76). The Department's budget is still separated into two components: enduring and Overseas Contingency Operations (OCO), which addresses the extraordinary and temporary costs associated with operations in Iraq, Afghanistan, and Pakistan. The Bureau of Budget and Planning manages the Diplomatic Engagement portion of the budget and the Office of U.S. Foreign Assistance Resources manages Foreign Assistance.

### Budgetary Position for Diplomatic Engagement

Appropriations for Administration of Foreign Affairs constitute the Department's operational funding. This funding supports the people and programs which carry out U.S. foreign policy and advance U.S. national security, political, and economic interests at more than 270 posts in over 180 countries around the world. These funds also build, maintain, and secure the infrastructure of the U.S. diplomatic platform, from which most U.S. Government agencies operate overseas.

The FY 2014 Diplomatic Engagement budget totaled \$14.9 billion. This includes \$9.8 billion for Administration of Foreign Affairs, which includes Diplomatic and Consular Programs (D&CP), Worldwide Security Protection (WSP), and Embassy Security, Construction, and Maintenance (ESCM) and Other Administration of Foreign Affairs appropriations. The remainder of the Diplomatic Engagement budget is comprised of Contributions to International Organizations and International Peacekeeping Activities (\$3.1 billion), Related Programs (\$169.2 million), and International Commissions (\$125.9 million) appropriations. Diplomatic Engagement also included \$1.8 billion in OCO funding for selected accounts, primarily D&CP. Separating OCO from enduring expenses makes the Department's budget more transparent and reduces overlap by aligning spending in the Frontline States with the Department of Defense, which also receives OCO funding.

In addition to appropriated funds, the Department earns revenue from user fees. The largest portion of such revenues are derived from passport and visa charges, including Machine Readable Visa fees, Immigrant Visa fees, the Western Hemisphere Travel Surcharge, and others which support

**DIPLOMATIC ENGAGEMENT BUDGET FY 2014**  
*(dollars in billions)*


the Border Security Program. The Border Security Program provides protection to U.S. citizens overseas and contributes to national security and economic growth. It is a core element of the national effort to deny individuals who threaten the country entry into the U.S. while assisting and facilitating the entry of legitimate travelers, and promoting tourism.

For FY 2014, D&CP, the Department's principal operating appropriation, was funded at \$8 billion for both enduring and OCO. Total D&CP funding included \$770.6 million to support operations of the U.S. Mission in Iraq; \$752.1 million for activities in Afghanistan; \$110.7 million for key programs and activities in Pakistan; \$2.8 billion for the WSP program to strengthen security for diplomatic personnel and facilities and to sustain investments in response to the Accountability Review Board report on Benghazi, Libya; and \$501.3 million for public diplomacy programs to counter misinformation and secure support for U.S. policies abroad.

The Department's Information Technology (IT) Central Fund for FY 2014 investments in IT was \$240.1 million. This included \$76.9 million from the Capital Investment Fund appropriation and \$163.2 million in revenue from Expedited



For more information, a video about Diplomacy and the language of art and design may be viewed at: <http://video.state.gov/en/video/2761488330001>

Passport fees. Investment priorities included modernization of the Department's global IT infrastructure to assure reliable access to foreign affairs applications and information and projects to facilitate collaboration and data sharing internally and with other agencies.

The ESCM appropriation was funded at \$2.7 billion to provide U.S. missions overseas with secure, safe, and functional facilities. This supported maintenance and repairs of the Department's real estate portfolio, which exceeds \$80 billion in replacement value and includes over 23,000 properties. It included \$101 million to support compound security projects and \$1.5 billion to support the Capital Security Construction program, which was expanded in FY 2012 to include the maintenance cost sharing program. Other agencies with overseas staff under Chief of Mission authority also contributed \$609 million to capital security cost-sharing reimbursements for the construction of new diplomatic facilities.

The Educational and Cultural Exchange Programs (ECE) appropriation was funded at \$568.6 million. A key element of the Department's public diplomacy strategy are the educational and cultural exchange programs that engage foreign audiences to develop mutual understanding and build foundations for international cooperation. Major highlights of FY 2014 funding included: \$312.5 million for academic programs, such as the J. William Fulbright Scholarship Program and English language teaching; and \$192.6 million for professional and cultural exchanges, notably the International Visitor Leadership Program and Citizen Exchange Program.

Looking ahead, the Department's FY 2015 budget request supports comprehensive U.S. engagement and implements the vision of U.S. global leadership articulated in the National Security Strategy. The request especially supports the rebalance of our resources toward the East Asia and Pacific region as well as economic, energy and commercial service initiatives to create substantial export opportunities for U.S. businesses. The FY 2015 Diplomatic Engagement enduring and OCO budget request totals \$16.2 billion. The enduring portion represents the Department's ongoing investment necessary to advance the U.S.'s security and economic interests around the world. It includes increases for D&CP, WSP, and ECE funding in order to meet new challenges in preventing terrorist attacks at our posts, and to sustain the exchanges component of public diplomacy. The \$2.3 billion OCO

request includes \$1.7 billion for diplomatic and security operations, \$428 million for a newly proposed Peacekeeping Response Mechanism (PKRM), and \$56.9 million for Special Inspector General for Afghanistan. The majority of the OCO request continues the transitioning of civilian presence in Afghanistan, and supports the unique operating environments in Iraq and Pakistan. The PKRM request, as amended in July will enable the United States to meet its funding commitments to the new UN peacekeeping mission in the Central African Republic, which was approved by the United Nations subsequent to the release of the President's Budget.

To maximize our efficiency, the Department continues to focus on improving the way it does business and concentrates on innovative solutions and building cross-agency partnerships to achieve measurable results. In sum, the FY 2015 request will continue our diplomatic operations, programs, and initiatives that constitute an integrated strategy for renewing the U.S.'s global leadership and advancing vital U.S. national interests. With these resources, the United States can, must, and will continue to lead in the 21st Century.

### **Budgetary Position for Foreign Assistance**

The FY 2014 Department of State Foreign Assistance budget totaled \$17.6 billion. Foreign Assistance programs enable the U.S. Government to promote stability in key countries and regions, advance economic transformations, confront security challenges, respond to humanitarian crises, and encourage better governance, policies, and institutions.

Foreign Assistance programs under the purview of the Department of State are the Democracy Fund; Foreign Military Financing; Global Health Programs; the Global Security Contingency Fund; International Military Education and Training; International Narcotics Control and Law Enforcement; International Organizations and Programs; Migration and Refugee Assistance; U.S. Emergency Refugee and Migration Assistance; Nonproliferation, Antiterrorism, Demining, and Related Programs; and Peacekeeping Operations. The Department also implements funds from the Economic Support Fund account.

An important aspect of the Department's FY 2014 budget is the Overseas Contingency Operations (OCO) component. OCO funds the extraordinary, but temporary, costs of the

Department and USAID operations in Iraq, Afghanistan, and Pakistan, as well as other extraordinary contingency costs in places like Yemen, Syria, and Central African Republic. The Department's Foreign Assistance portion of the FY 2014 budget for OCO totaled \$2.4 billion in Foreign Military Financing, International Narcotics Control and Law Enforcement, Migration and Refugee Assistance, Nonproliferation, Antiterrorism, Demining, and Related Programs, and Peacekeeping Operations.

The Democracy Fund appropriation totaled \$130.5 million in FY 2014; the funds were split, however, between the Department and USAID. The Department was allocated \$70.5 million to promote democracy in priority countries where egregious human rights violations occur, democracy and human rights advocates are under pressure, governments are not democratic or are in transition, where there is growing demand for human rights and democracy, and for programs promoting Internet Freedom.

The FY 2014 Foreign Military Financing (FMF) appropriation totaled \$5.9 billion, of which \$0.5 billion is designated as OCO-related and \$5.4 billion supports core programs. FMF furthers U.S. interests around the world by training and equipping coalition partners and friendly foreign governments that are working to achieve common security goals and shared burdens in joint missions. While the greatest proportion of FMF in FY 2014 was allocated to Israel, Egypt, Iraq, Jordan, and Pakistan, the remaining funds were allocated strategically within regions to support ongoing efforts to incorporate the most recent North Atlantic Treaty Organization (NATO) members into the organization, support prospective NATO members and Coalition partners, and assist critical Coalition partners in Afghanistan.

In FY 2014, the portion of the Global Health Programs appropriation managed by the Department totaled \$5.7 billion. This is the primary source of funding for the President's Plan for AIDS Relief (PEPFAR), the largest effort made by any nation to combat a single disease. These funds are used to achieve prevention, care, and treatment goals while also strengthening health systems, including new health care worker goals, and emphasizing country ownership to build a long-term sustainable response to the epidemic. The majority of the funds (\$3.4 billion) continued to be allocated to the Africa region where the HIV/AIDS epidemic is the most widespread.

There was also a \$1.6 billion contribution to the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

For FY 2014, the Department did not receive a direct appropriation for the Global Security Contingency Fund appropriation, nor has it transferred funds into the account yet. The account is used to support the Department's new three year pilot initiative which streamlines the way the U.S. Government provides assistance to military forces and other security forces responsible for conducting border and maritime security, internal security, and counterterrorism operations, as well as the government agencies responsible for such forces in response to emergent challenges or opportunities. As decisions are made to fund particular programs, the Departments of State and Defense will transfer funds to the account for implementation.

The FY 2014 International Military Education and Training (IMET) appropriation totaled \$105.6 million. IMET is a key component of U.S. security assistance that promotes regional stability and defense capabilities through professional military training and education. IMET students from allied and friendly nations receive valuable training and education on U.S. military practices and standards. IMET is an effective mechanism for strengthening military alliances and international coalitions critical to the global fight against terrorism.

The International Narcotics Control and Law Enforcement (INCLE) appropriation for FY 2014 totaled \$1.3 billion, of which \$344.4 million is OCO-related and \$1 billion is for core programs. INCLE supports bilateral and global programs critical to combating transnational crime and illicit threats, including efforts against terrorist networks in the illegal drug trade and illicit enterprises. INCLE programs strengthen law enforcement jurisdictions and institutions. In FY 2014, many INCLE resources were focused where security situations were most dire and where U.S. resources were used in tandem with host-country government strategies to maximize impact. INCLE resources were also targeted to countries having specific challenges in establishing a secure and stable environment.

The FY 2014 International Organizations and Programs appropriation totaled \$344 million. It provided international organizations voluntary contributions that advanced U.S. strategic goals by supporting and enhancing international consultation and coordination. This approach is required



**U.S. Secretary of State John Kerry checks his notes before addressing the staff of Consulate Ho Chi Minh City in Vietnam, December 14, 2013. Department of State**

in transnational areas where solutions to problems are best addressed globally, such as protecting the ozone layer or safeguarding international air traffic. In other areas, the United States can multiply its influence and effectiveness through support for international programs.

In FY 2014, the Migration and Refugee Assistance (MRA) appropriation totaled \$3.1 billion, of which \$1.3 billion was OCO and \$1.8 billion was for core programs. These funds provided humanitarian assistance and resettlement opportunities for refugees and conflict victims around the globe. In FY 2014, MRA contributed to key international humanitarian organizations and non-governmental organizations to address international humanitarian needs and refugee resettlement in the United States. A significant amount of funding was provided for assistance to Syrian refugees throughout the Middle East and North Africa.

The FY 2014 U.S. Emergency Refugee and Migration Assistance (ERMA) appropriation totaled \$50 million. ERMA serves as a contingency fund from which the President can draw in order to respond effectively to humanitarian crises in an ever-changing international environment.

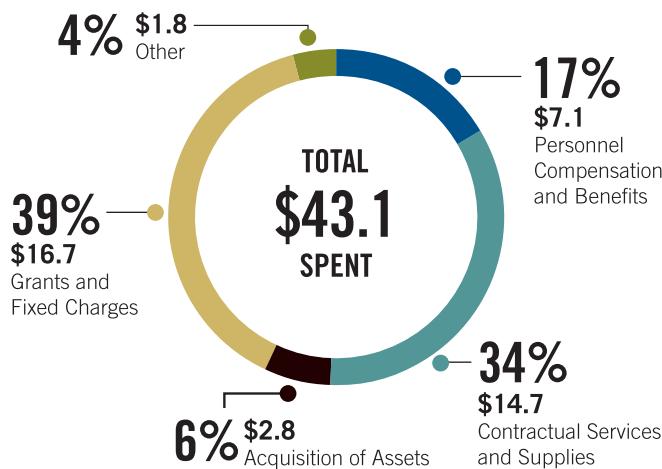
The Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR) appropriation in FY 2014 totaled

\$700 million, of which \$70 million is OCO-related and \$630 million supported core programs. NADR funding is used to support U.S. strategic and humanitarian priority efforts, especially in the areas of nonproliferation and disarmament, export control, and other border security assistance; global threat-reduction programs, antiterrorism programs; and conventional weapons destruction.

The Peacekeeping Operations (PKO) appropriation totaled \$435.6 million, of which \$200 million was OCO and \$235.6 million supported core programs. PKO is used to enhance international support for voluntary multinational stabilization efforts, including international missions not supported by the United Nations, and U.S. conflict-resolution activities. In FY 2014, the PKO program supported ongoing requirements for the Global Peace Operations Initiative, security sector reform in the newly independent Republic of South Sudan, as well as multinational peacekeeping and regional stability operations, particularly in Somalia and Mali.

The Department of State's FY 2015 budget request for Foreign Assistance is currently under congressional consideration. The request is for \$15.7 billion, of which \$14.1 billion supports core programs and another \$1.6 billion is for OCO funding.

#### HOW WAS THE AGENCY'S MONEY SPENT 2014 (dollars in billions)



The figure (bottom left) presents the use of budgetary funds representing 2014 total obligations incurred, as reflected on the SBR. It shows how resources were spent in 2014, by category. As illustrated, the categories contractual services \$14.7 billion (34 percent), grants and fixed charges \$16.7 billion (39 percent), and personnel compensation and benefits \$7.1 billion (17 percent) represent 90 percent of the agency's spending.

#### FINANCIAL MANAGEMENT SYSTEMS SUMMARY

Section III: Other Information of this *Agency Financial Report* provides an overview of the Department's current and future financial management systems framework and systems critical to effective agency-wide financial management operations, financial reporting, internal controls, and interagency administrative support cost sharing. This summary presents the Department's financial management systems strategy and how it will improve financial and budget management across the agency. This overview also contains a synopsis of critical projects and remediation activities that are planned or currently underway. These projects are intended to modernize and consolidate Department resource management systems.

#### LIMITATION OF FINANCIAL STATEMENTS

Management prepares the accompanying financial statements to report the financial position and results of operations for the Department of State pursuant to the requirements of Chapter 31 of the U.S. Code Section 3515(b). While these statements have been prepared from the books and records of the Department in accordance with FASAB standards using OMB Circular A-136, *Financial Reporting Requirements*, revised, and other applicable authority, these statements are in addition to the financial reports, prepared from the same books and records, used to monitor and control the budgetary resources. These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

# Management Assurances and Other Financial Compliances

## MANAGEMENT ASSURANCES

The Department's Management Control policy is comprehensive and requires all Department managers to establish cost-effective systems of management controls to ensure U.S. Government activities are managed effectively, efficiently, economically, and with integrity. All levels of management are responsible for ensuring adequate controls over all Department operations.

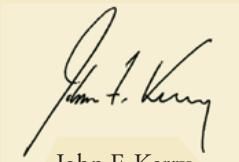
### FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The Department of State's (the Department's) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). The Department conducted its assessment of the effectiveness of internal control over the efficiency and effectiveness of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the Department can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations and financial management systems met the objectives of FMFIA as of September 30.

In addition, management is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. The Department conducted its assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A of OMB Circular A-123. Based on the results of this assessment, the Department can provide reasonable assurance that its internal control over financial

reporting as of June 30 was operating effectively and the Department found no material weaknesses in the design or operation of the internal control over financial reporting. Further, subsequent procedures and testing through September 30 did not identify any material changes in key financial reporting internal controls.

As a result of its inherent limitations, internal control over financial reporting, no matter how well designed, cannot provide absolute assurance of achieving financial reporting objectives and may not prevent or detect misstatements. Therefore, even if the internal control over financial reporting is determined to be effective, it can provide only reasonable assurance with respect to the preparation and presentation of financial statements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.



John F. Kerry  
Secretary of State  
November 17, 2014

## DEPARTMENTAL GOVERNANCE

## MANAGEMENT CONTROL PROGRAM

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish internal control and financial systems that provide reasonable assurance that the following objectives are achieved:

- Effective and efficient operations,
- Compliance with applicable laws and regulations, and
- Financial reporting reliability.

It also requires that the head of the agency, based on an evaluation, provide an annual Statement of Assurance on whether the agency has met this requirement. OMB Circular A-123, *Management's Responsibility for Internal Control*, implements the FFMIA and defines management's responsibility for internal control in Federal agencies.

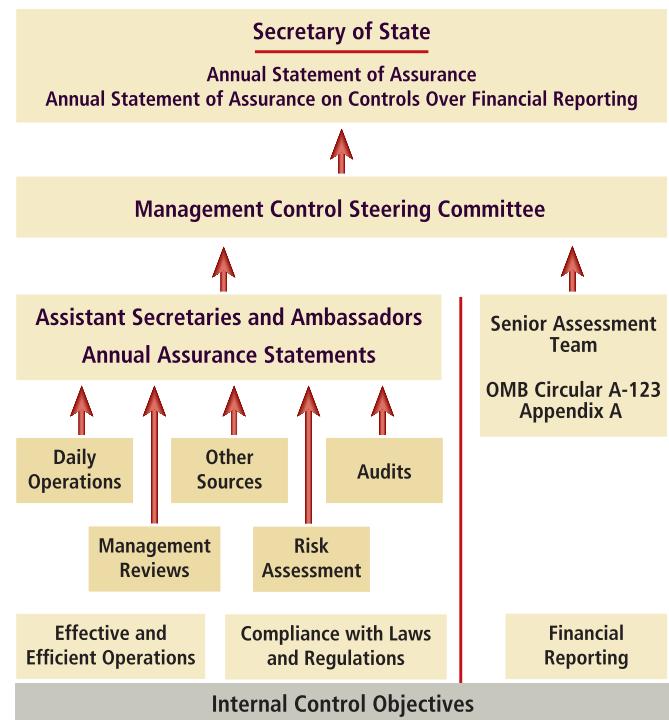
The Circular A-123 also requires that the agency head provide a separate assurance statement on the effectiveness of internal control over financial reporting (ICOFR). This is an addition to and a component of the overall FFMFIA assurance statement. Appendix A of Circular A-123 was added to improve governance and accountability for internal control over financial reporting in Federal entities similar to the internal control requirements for publicly-traded companies contained in the Sarbanes-Oxley Act of 2002.

The Secretary of State's 2014 Annual Assurance Statement for FMFIA and ICOFR is provided on the previous page. We have also provided a Summary of Financial Statement Audits and Management Assurances as required by OMB Circular A-136, *Financial Reporting Requirements*, revised, later in this report's Other Information section.

The Department's Management Control Steering Committee (MCSC) oversees the Department's management control program. The MCSC is chaired by the Comptroller, and is comprised of ten Assistant Secretaries [including the Inspector General (non-voting)], the Chief Information Officer, the Deputy Chief Financial

Officer, the Deputy Legal Adviser, the Director for the Office of Budget and Planning, and the Director for the Office of Overseas Buildings Operations. Individual assurance statements from Ambassadors assigned overseas and Assistant Secretaries in Washington, D.C. serve as the primary basis for the Department's FMFIA assurance issued by the Secretary. The assurance statements are based on information gathered from various sources including the managers' personal knowledge of day-to-day operations and existing controls, management program reviews, and other management-initiated evaluations. In addition, the Office of Inspector General, the Special Inspector General for Afghanistan Reconstruction, and the Government Accountability Office conduct reviews, audits, inspections, and investigations that are considered by management.

## FMFIA ANNUAL ASSURANCE PROCESS



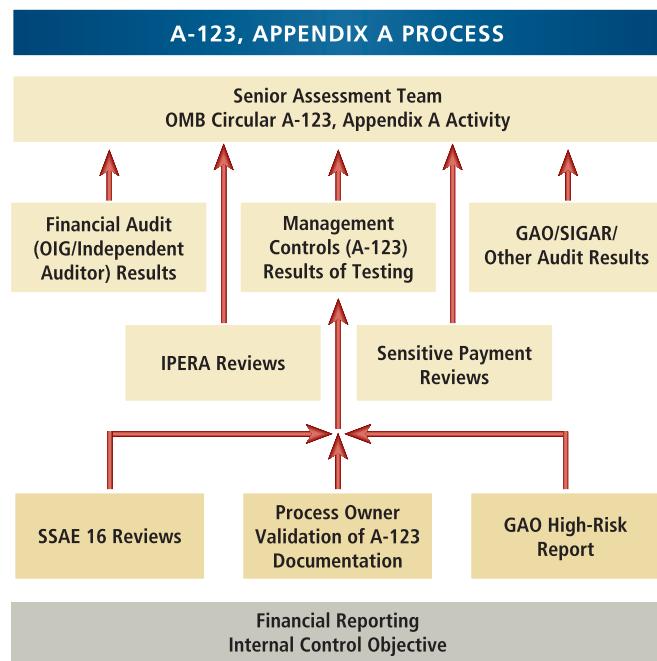
The Senior Assessment Team (SAT) provided oversight during 2014 for the ICOFR program in place to meet Appendix A requirements. The SAT reports to the MCSC and is comprised of 15 senior executives from bureaus that have significant responsibilities relative to the Department's financial resources, processes, and reporting, and the Office of the Legal Adviser. An executive from the

Office of Inspector General is also a non-voting member of the SAT. In addition, the Department's Office of Management Controls employs an integrated process to perform the work necessary to meet the requirements of Appendix A, Appendix C (regarding the Improper Payments Information Act), and the FMFIA. The Department employs a risk-based approach in evaluating internal controls over financial reporting on a multi-year rotating basis, which has proven to be efficient. Due to the broad knowledge of management involved with the Appendix A assessment, along with the extensive work performed by the Office of Management Controls, the Department evaluated issues on a detailed level. The 2014 Appendix A assessment did not identify any material weaknesses in the design or operation of the internal control over financial reporting. The assessment did identify several significant deficiencies in internal control over financial reporting that management is closely monitoring.

The Department's management controls program is designed to ensure full compliance with the goals, objectives, and requirements of the FMFIA and various Federal laws and regulations. To that end, the Department has dedicated considerable resources to administer a successful management control program. It is the Department's policy that any organization with a material weakness or significant deficiency must prepare and implement a corrective action plan to fix the weakness. The plan, combined with the individual assurance statements and Appendix A assessments, provide the framework for monitoring and improving the Department's management controls on a continuous basis. Management will continue to direct focused efforts to resolve issues for all significant deficiencies in internal control identified by management and auditors.

## FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that Federal agencies' financial management systems provide reliable financial data that complies with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger (USSGL) at the transaction level.



To assess conformance with FFMIA, the Department uses FFMIA implementation guidance issued by OMB (September 2013 Memorandum to Executive Department Heads), results of OIG and GAO audit reports, annual financial statement audits, the Department's annual Federal Information Security Management Act (FISMA) Report, and other relevant information. The Department's assessment also relies upon evaluations and assurances under the Federal Managers' Financial Integrity Act of 1982 (FMFIA), including assessments performed to meet the requirements of OMB Circular A-123 Appendix A. When applicable, particular importance is given to any reported material weakness and material non-conformance identified during these internal control assessments. The Department has made it a priority to meet the objectives of the FFMIA.

In its Report on Compliance and Other Matters, the Independent Auditor reported that the Department's financial management systems did not substantially comply with certain Federal systems requirements and the USSGL at the transaction level. The Department acknowledges that the Independent Auditor has noted certain weaknesses in our financial management systems. In our assessments and evaluations, the Department identified similar weaknesses. However, applying the guidance and the assessment framework noted in Appendix D to OMB Circular A-123, the Department considers them deficiencies versus substantial



**U.S. Secretary of State John Kerry adds a bolt to a clean-diesel engine while touring the Cummins-Foton Joint Venture Plant in Beijing, China, February 15, 2014. Department of State**

non-conformances relative to substantial compliance with the requirements of the FFMIA. Effective for FY 2014, Appendix D provides a revised compliance model that entails a risk- and outcome-based approach to assess FFMIA compliance. The Department will continue to work with the Independent Auditor in 2015 and beyond to resolve these weaknesses.

## FEDERAL INFORMATION SECURITY MANAGEMENT ACT

The Federal Information Security Management Act of 2002 (FISMA) requires Federal agencies to develop, document, and implement an agency-wide program to provide information security for the information and information systems that support the operations and assets of the agency. The Office of the Inspector General (OIG) performs an annual evaluation of the Department's compliance with FISMA requirements. In response to a request from the Management Control Steering Committee, the Department developed a corrective action plan for 2014 addressing six information security goals. As of September 2014, the Department has successfully met the milestones to date. In addition, the Department developed an information security risk management strategy.

During 2014, the Department continued to enhance its comprehensive risk-based and cost effective information security program through implementation of specific and

tangible efforts that have enhanced the maturity level of a number of programs and procedures including:

**Risk Management and Systems Authorization:** The Department completed the authorization of the OpenNet general support system (GSS) in April 2014. OpenNet is the Department's unclassified computer network. In September 2014, the Department completed the authorization of the ClassNet GSS, the Department's classified network. The Department has authorized all but one of the high impact systems and is making notable progress with many of the moderate impact systems that had expired. The Department's Directorate of Information Assurance also set up the Bureau Coordinator program to assist the Bureaus in preparing for and completing authorizations in a timely manner.

**Plans of Action and Milestones:** In March 2014, the Department implemented an enterprise license of ComplyVision to be used as the repository for assessment and authorization documentation and Plans of Action and Milestones (POA&M). Actions to complete this part of the program are in motion at this time. With the completion of the authorization of OpenNet and ClassNet, a series of common controls were identified and the owners of those controls were made aware of their responsibilities. This action should simplify future authorizations and distribution of POA&M activities. Finally, all OpenNet POA&Ms have been entered into ComplyVision.

**Continuous Monitoring Program:** The Department has generated the Information Security Continuous Monitoring Strategy which has been approved by the Department's Chief Information Officer. As a part of the 2014 FISMA reporting process in CyberScope, the Department of Homeland Security's (DHS) tool, this document will be included in the Department's annual FISMA submission. The Department has been associated at an early stage with this process with both OMB and DHS and the current program reflects that level of activity in the Department.

**Security Configuration Management:** The Bureau of Information Resource Management (IRM) and the Bureau of Diplomatic Security (DS) are working closely to further the Department's cybersecurity program. IRM and DS are synchronizing the process of updating applicable sections of Department policy to remove conflicts and inconsistent

guidance. In addition, the Department has purchased and is testing a network scanning tool and a database scanning tool to assist in the testing of high impact business processes such as financial systems, consular affairs systems, and accounting systems.

In the FISMA report and the Inspector General's Assessment of Management and Performance Challenges (located in the Other Information section of this AFR), the OIG cites weaknesses to enterprise-wide security they consider to be a significant deficiency in accordance with OMB memorandum M-14-04. While the Department acknowledges the weaknesses identified by the OIG, it does not agree that any of the findings, either individually or collectively, rises to the level of a significant deficiency that would require treating the matter as an additional material weakness in accordance with OMB M-14-04. The OMB memorandum defines a "significant deficiency...as a weakness in an agency's overall information systems security program...that significantly restricts the capability of the agency to carry out its mission or compromises the security of its information, information systems, personnel, or other resources, operations, or assets. In this context, the risk is great enough that the agency head and other agencies must be notified and immediate or near-immediate action must be taken." As outlined herein, the Department's management has defined corrective actions and notes much progress has been made. For 2015, a new corrective action plan is under development to continue efforts to address each weakness in a prioritized manner based upon the risk and impact posed to the Department's security posture.

## OTHER REGULATORY REQUIREMENTS

The Department is required to comply with a number of other legal and regulatory financial requirements, including the Improper Payment Information Act (IPIA, as amended), the Debt Collection Improvement Act, and the Prompt Pay Act. The Department determined that none of its programs are risk-susceptible for making significant improper payments at or above the threshold levels set by OMB, and collected over 80 percent of amounts identified for recovery this year. In addition, the Department does not refer a substantial amount of debts to Treasury for collection, and has successfully paid vendors timely 98 percent of the time for the past three fiscal years. A detailed description

of these compliance results and improvements is presented in the Other Information section of this report.

## AMERICAN RECOVERY AND REINVESTMENT ACT



Of the \$787 billion appropriated for the American Recovery and Reinvestment Act (ARRA) of 2009, the Department of State received \$562 million for projects and \$2 million for Office of Inspector General oversight. The Department used ARRA funds to create and save jobs, repair and modernize domestic infrastructure crucial to the safety of American citizens, and expand consular services offered to American taxpayers. Details of the Department's ARRA implementation are posted on the website at <http://www.state.gov/recovery/>.

In prior years, the Department completed a number of construction projects using ARRA funds. For example, the Department expanded its network of passport facilities (\$15 million); opened new classrooms and installed new signage at the National Foreign Affairs Training Center (\$5 million); and completed a domestic Enterprise Server Operations Center (\$120 million). In 2014, master planning is near completion for the site identified as the location of the Diplomatic Security Foreign Affairs Security Training Center (\$70 million). This will provide a centralized location that supports hard skills security-related training for Department and other U.S. Government staff posted at U.S. embassies.

The International Boundary and Water Commission reports that their projects to raise or make structural improvements to the 237 miles of levees (\$220 million) that ensure adequate flood protection to the area are complete as of September 30, 2014.

In prior years, ARRA funding was also used for information technology and cybersecurity (\$132 million) and the Department's Office of Inspector General ARRA-related activities (\$2 million). No new activities took place during 2014.

# SECTION II:

# Financial Section

## Message from the Comptroller

**O**n behalf of the Department of State, I am pleased to present the Fiscal Year (FY) 2014 Agency Financial Report (AFR). The AFR is the cornerstone of our efforts to disclose our financial status, stewardship of the assets entrusted to us, and accountability to the American public. The AFR and our financial statements reflect the complexity of our global mission and represent the rigor and resolve to transparently demonstrate our effective management over the Department's finite financial resources. More importantly, they embody and reflect the immense work and dedication displayed every day by the Department's workforce around the globe in support of our critical foreign affairs mission.

First and foremost, I would like to express my sincere thanks and appreciation to our financial management professionals, whose consistent efforts to plan, execute, and account for the Department's resources, often in the most challenging global environments, is the foundation for any success and strong financial stewardship. I'm honored to be able to serve with such a dedicated group, both within the Bureau of the Comptroller of Global Financial Services (CGFS) and among the Department's extended financial team. Secondly, I'd like to thank the Office of the Inspector General (OIG) and the Independent Auditor, Kearney & Company. While we may not always agree on all points, it has been a collaborative and professional effort by all stakeholders involved, throughout the year, to present the AFR and the audited Financial Statements by November 17.

The scale, complexity, and diversity of Department activities and corresponding financial management operations and requirements are immense. The Department operates in over 270 embassies and consulates, located in more than 180 countries around the world. We conduct business on a 24/7 basis in over 135 foreign currencies and account for nearly 400 separate fiscal funds. We provide the shared administrative operating platform for more than 45 other U.S. Government entities overseas; pay more than 100,000 Foreign and Civil Service, overseas local employees, and Foreign Service annuitants each month. These financial responsibilities reflect the dynamic international environment and broad range of ongoing and new foreign policy challenges that demand our attention, as illustrated in the Secretary's message. In meeting our global challenges, Secretary Kerry has underscored the importance of sustaining prudent fiscal and resource management as we make smart foreign policy investments now that increase America's prosperity and avoids costlier U.S. intervention down the road.

To further this effort, the Department's corporate finance Bureau, CGFS, continues to prudently prioritize, manage, and implement vital investments in modern transformative resource management systems that facilitate smart and standardized enterprise-wide financial business processes and accurate and timely financial data. We have emphasized our commitment to meet our day-to-day global financial services in disbursing, accounting, and compensation for the Department and other customer agencies by our

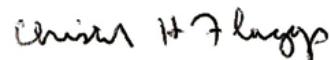
commitment to ISO-9001 certified operations and the Capability Maturity Model Integration (CMMI) standard for financial systems development. At the same time, we strive to balance and meet the growing audit and compliance requirements driven by OMB, Treasury, and the Congress. In doing so, we have worked to strengthen our ability to work with partners across the Department's global platform to ensure an environment of improved financial performance.

The President has challenged us to deliver a government that serves the needs of the American people and delivers programs in effective, efficient, and innovative ways. Improving Federal financial management is a key area, and we are working hard to meet this challenge. The Department does not have any programs at risk for making significant improper payments. Since 2012, we have implemented new initiatives for conducting payment risk assessments and recapture audits, as well as verifications against Treasury's Do Not Pay databases. In their annual assessment, the OIG found the Department's improper payments program to be in substantial compliance with IPIA and IPERA. Concurrently, in support of the President's Management Agenda, we accelerated over 60 percent of our payments to businesses and continue to expand our use of the travel and procurement charge card programs. Leveraging our investments in a modern financial systems platform, we have dramatically increased the centralization of our voucherizing processes overseas. Our Post Support Unit now services more than 162 posts worldwide with effective and efficient transactional processing. Also, we continue to make significant progress in modernizing and consolidating our global financial management systems. Of particular note, our Global Foreign Affairs Compensation System (GFACS) project is replacing our decades old payroll systems with a single modern platform to pay all American employees, locally employed (LE) staff overseas, and Foreign Service annuitants. Phase I, Foreign Service annuitant pay, is complete for our 16,000 Foreign Service annuitants, and we are almost half-way complete Phase II which is the conversion of 192 different LE pay plans around the world.

I am pleased to report that the Department has received an unmodified ("clean") audit opinion on its FY 2014 Financial Statements, with no material weaknesses identified by the Independent Auditor. In addition, the Department maintains a robust system of internal controls that are validated by senior leadership and administered by CGFS. For FY 2014, no material weaknesses in internal controls were identified by senior leadership, and prior significant deficiencies regarding the lack of an adequate federal financial assistance information system and Foreign Service Retirement and Disability Fund data inaccuracies and timeliness were closed. In addition, no material weaknesses in internal control over financial reporting were identified by the Senior Assessment Team or the Management Control Steering Committee or senior leadership. As a result, the Secretary was able to provide reasonable assurance on the effectiveness of the Department's overall internal control and the internal control over financial reporting in accordance with the Federal Managers' Financial Integrity Act.

While we are pleased with what has been accomplished this year, we fully recognize that there are a number of items noted in the AFR that will require our continued attention, diligence, and improvement. And, having been a part of the Department's financial management team and financial audit process for more than two decades, I know there are always new requirements, issues, and opportunities for improvement to tackle. This is particularly true given the global and complex nature of our financial operations and the uncertainty of the world in which we operate. Nevertheless, we are committed to addressing these recurring and new challenges as we strive to be the most efficient and effective stewards of the Department's limited resources in support of our vital mission.

Sincerely,



Christopher H. Flagg

Comptroller

November 17, 2014



November 17, 2014

## INFORMATION MEMO FOR THE SECRETARY

FROM: OIG – Steve A. Linick *SL*

SUBJECT: Independent Auditor's Report on the U.S. Department of State 2014 and 2013 Financial Statements (AUD-FM-15-07)

An independent certified public accounting firm, Kearney & Company, P.C., was engaged to audit the consolidated financial statements of the U.S. Department of State (Department) as of September 30, 2014 and 2013, and for the years then ended; to provide a report on internal control over financial reporting; to report on whether the Department's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA); and to report any reportable noncompliance with laws, regulations, contracts, and grant agreements it tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget audit guidance.

In its audit of the Department's 2014 and 2013 financial statements, Kearney & Company found

- the consolidated financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 2014 and 2013, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America;
- no material weaknesses<sup>1</sup> in internal control over financial reporting; and

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<sup>1</sup> A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

- instances of reportable noncompliance with laws, regulations, contracts, and grant agreements tested, including instances in which the Department's financial management systems did not substantially comply with FFMIA.

Kearney & Company is responsible for the attached auditor's report, which includes the Independent Auditor's Report, the Report on Internal Control Over Financial Reporting, and the Report on Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements, dated November 15, 2014, and the conclusions expressed in the report. The Office of Inspector General (OIG) does not express an opinion on the Department's financial statements or conclusions on internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements, including whether the Department's financial management systems substantially complied with FFMIA.

Comments on the auditor's report from the Bureau of the Comptroller and Global Financial Services are attached to the report.

OIG appreciates the cooperation extended to it and Kearney & Company by Department managers and staff during the conduct of this audit.

Attachment: As stated.



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## INDEPENDENT AUDITOR'S REPORT

AUD-FM-15-07

To the Secretary and the Inspector General of the U.S. Department of State

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of the U.S. Department of State (Department), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, the related consolidated statements of net cost and changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as the "consolidated financial statements").

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Opinion on the Consolidated Financial Statements***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2014 and 2013, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

#### ***Other Matters***

##### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, condition assessments of Heritage Assets, Combining Schedule of Budgetary Resources, and Deferred Maintenance (hereinafter referred to as "required supplementary information") be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by OMB Circular A-136, *Financial Reporting Requirements*, and the Federal Accounting Standards Advisory Board, which consider it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

##### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information in the Message from the Secretary, the Message from the Comptroller, and the Other Information Section, as listed in the Table of Contents of the Department's *Agency Financial Report*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02, we have also issued reports, dated November 15, 2014, on our consideration of the Department's internal control over financial reporting and on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements for the year ended September 30, 2014. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 14-02 in considering the Department's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Kearney &amp; Company".

Alexandria, Virginia  
November 15, 2014



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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Secretary and the Inspector General of the U.S. Department of State

We have audited the consolidated financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2014, and have issued our report thereon dated November 15, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

### Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate under the circumstances for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 14-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Our audit was also not designed to identify deficiencies in internal control that might be significant. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Department's internal control to be significant deficiencies.



## Significant Deficiencies

### I. Financial Reporting

Weaknesses in controls over financial reporting have been reported as either a material weakness or a significant deficiency since the audit of the Department's FY 2009 financial statements. The Department has addressed certain control deficiencies reported in prior financial statement audit reports related to financial reporting and improved underlying data. However, financial reporting continues to be a significant deficiency because of issues with the preparation of the Statement of Budgetary Resources (SBR).

The SBR is derived predominantly from an entity's budgetary general ledger in accordance with budgetary accounting rules. Information on the SBR should reconcile to budget execution information reported to the Department of the Treasury on Standard Form (SF) 133, Report on Budget Execution and Budgetary Resources, and with information reported in the Budget of the United States Government to ensure the integrity of the numbers presented. We found that the Department had made numerous adjustments related to budgetary resources outside the financial system, most of which originated from automated edit checks as well as manual free-form journal entries. Many of the adjustments are required to correct budgetary problems and limitations in the accounting system. Based on audit procedures performed, we identified a number of significant discrepancies in the adjustments made during the manual preparation of the Department's SF 133 reports.

The Department did not use the full functionality of its accounting systems to capture all budgetary accounting events and to automate SBR reporting procedures. In addition, the Department did not have sufficient controls in place to ensure all manual budgetary adjustments were supported or that the adjustments were consistently recorded when preparing the SBR. Manual adjustments require an increased measure of internal control and review, reduce the Department's ability to produce statements timely, and increase the likelihood of errors in the statements.

### II. Property and Equipment

The Department reported over \$18 billion in net property and equipment on its FY 2014 balance sheet. Real and leased property consisted primarily of facilities used for U.S. diplomatic missions abroad and capital improvements to these facilities. Personal property consisted of several asset categories, including aircraft, vehicles, security equipment, communication equipment, and software. Weaknesses in property were initially reported in the audit of the Department's FY 2005 financial statements and subsequent audits. In FY 2014, the Department's internal control structure continued to exhibit several deficiencies that negatively affected the Department's ability to account for real and personal property in a complete, accurate, and timely manner. We concluded that the combination of property-related control deficiencies was a significant deficiency. The individual deficiencies we identified are summarized as follows:



- Personal Property Acquisitions and Disposals – The Department uses several non-integrated systems to track, manage, and record personal property transactions, which are periodically merged or reconciled with the financial management system in order to centrally account for the acquisition and disposal of personal property. We noted a significant number of prior year personal property transactions that were not recorded until the current year. In addition, we noted that the acquisition value for a number of selected items could not be supported and that the gain or loss on personal property disposals was not recorded properly for numerous items. The Department's control structure did not ensure that personal property acquisitions and disposals were recorded timely and accurately. In addition, the Department's monitoring activities were not always effective to ensure proper financial reporting for personal property. The errors resulted in misstatements to the Department's financial statements. The lack of effective control may result in the loss of accountability for asset custodianship, which could lead to undetected theft or waste.
- Recording Constructed Assets – The Department currently manages nearly \$3 billion in overseas construction projects. All construction projects should be tracked in the Construction-in-Progress account until the project reaches completion. Once a construction project is complete, the Department transfers the asset from the Construction-in-Progress account to the real property asset account and the asset is depreciated over its estimated useful life. In FY 2014, we found that the Department had reclassified costs related to a large construction project that was completed in FY 2013. All costs relating to this project were incorrectly recorded as expenses during prior years. The Department used project codes to ensure construction activities were properly recorded; however, the unrecorded asset did not have a project code. The misclassification led to an understatement in property and an overstatement of expenses in the Department's financial statements.
- Contractor-Held Property Inventory – The Department uses contractors to provide support in overseas locations, which may include purchasing and operating personal property, such as armored vehicles, on behalf of the Department. This type of property is generally referred to as contractor-held property (CHP). The Department has title to the CHP and reports all CHP with an acquisition cost of over \$25,000 as an asset in its financial statements. We identified some CHP armored vehicles that were incorrectly recorded as expenses rather than as assets. The Department performed additional analyses and identified more unrecorded CHP. During the procurement process, Department officials did not always include clauses requiring contractors to submit information related to CHP in contracts. In addition, although the Department had a process in place to identify potential unrecorded personal property, the process did not assess all transactions that could potentially involve CHP. Incomplete CHP inventories result in understated property and overstated expenses in the Department's financial statements.
- Operating Leases – The Department manages over 15,700 real property leases throughout the world. The majority of the Department's leases are short-term operating leases. The Department must disclose the future minimum lease payments (FMLP) related to the



Department's operating lease obligations in the footnotes to the financial statements. We found numerous recorded lease terms that did not agree with supporting documentation and two leases that should have been capitalized but that were inaccurately listed as operating leases. We also tested leases that were scheduled to expire and found multiple leases that had been renewed; however, the renewed lease terms were not included in the Department's FMLP calculations. The Department's process to monitor lease information provided by posts was not always effective. The discrepancies identified in the Department's FMLP calculation methodology led to multiple errors in the Department's footnote disclosure. In addition, the misclassification of two leases resulted in an understatement of assets and liabilities on the Department's balance sheet.

### III. Budgetary Accounting

The Department lacked sufficient reliable funds control over its accounting and business processes to ensure budgetary transactions were properly recorded, monitored, and reported. Beginning in our report on the Department's FY 2010 financial statements, we identified budgetary accounting as a significant deficiency. During FY 2014, the audit continued to identify control limitations, and we concluded that the combination of control deficiencies remained a significant deficiency. The individual deficiencies we identified are summarized as follows:

- Support of Obligations – Obligations are definite commitments that create a legal liability of the Government for payment. The Department should record only legitimate obligations, which would include a reasonable estimate of potential future outlays. We identified a large number of low-value obligations for which the Department could not provide evidence of a binding agreement. The Department's financial system was designed to reject payments for invoices without established obligations. Because allotment holders were not always recording valid and accurate obligations prior to the receipt of goods and services, the Department established low-value obligations, which allowed invoices to be paid in compliance with the Prompt Payment Act but effectively bypassed system controls. The continued use of this practice could lead to a violation of the Antideficiency Act, and it increases the risk of fraud, misuse, and waste.
- Timeliness of Obligations – The Department should record an obligation in its financial management system when it enters into an agreement, such as a contract or a purchase order, to purchase goods and services. During our testing, we identified obligations that were not recorded within 15 days of execution of the obligating document and obligations that were posted subsequent to the receipt of goods and services. We also identified obligations that were recorded in the financial management systems prior to the formal execution of a contract. The Department did not have processes to ensure the accurate and timely creation and recording of obligations. Without an effective obligation process, controls to monitor funds and make timely payments may be compromised, which may lead to violations of the Antideficiency Act and the Prompt Payment Act.
- Capital Lease Obligations – The Department must obligate funds to cover the net present value of the Government's total estimated legal obligation over the life of a capital lease



contract. However, the Department annually obligates funds equal to 1 year of the capital lease cost rather than the entire amount of the lease agreement. The Department obligated leases on an annual basis rather than the entire lease agreement period because that is the manner in which funds are budgeted and appropriated. Because of the unrecorded obligation, the Department's financial statements were misstated.

- Effectiveness of Allotment Controls – Federal agencies use allotments to allocate funds in accordance with statutory authority. Allotments provide authority to agency officials to incur obligations as long as those obligations are within the scope and terms of the allotment authority. We identified systemic issues in the Department's use of allotment overrides, which allowed officials to exceed allotments. Department systems did not have an automated control to prevent users from recording obligations that exceeded allotment amounts. Department management stated that an automated control is not reasonable because there are instances in which an allotment may need to be exceeded; however, the Department has not formally documented the circumstances under which an allotment override is acceptable. The Department has a process to identify instances in which an obligation exceeded a domestic allotment; however, this process does not include overseas allotments. Additionally, the process does not adequately validate whether the override was acceptable and summarize the information for management use. Overriding allotment controls could lead to a violation of the Antideficiency Act and increases the risk of fraud, misuse, and waste.

#### **IV. Validity and Accuracy of Unliquidated Obligations**

Unliquidated obligations (ULO) represent the cumulative amount of orders, contracts, and other binding agreements for which the goods and services that were ordered have not been received or the goods and services have been received but payment has not yet been made. The Department's policies and procedures provide guidance related to the periodic review, analysis, and validation of the ULO balances posted to the general ledger. We identified a significant amount of invalid ULOs that had not been identified by the Department's review process. The internal control structure was not operating effectively to comply with existing policy or facilitate the accurate reporting of ULO balances in the financial statements. The Department's internal controls were not effective to ensure that ULOs were consistently and systematically evaluated for validity and deobligation. As a result of the invalid ULOs, the Department's financial statements were misstated. In addition, funds that could have been used for other purposes may have remained in unneeded obligations. Weaknesses in controls over ULOs were initially reported in the audit of the Department's 1997 financial statements and subsequent audits.

#### **V. Information Technology**

The Department's information technology (IT) internal control structure, both for the general support system and critical financial reporting applications, exhibited limitations in several areas, including risk management strategies and user account management. The National Institute of Standards and Technology and the Government Accountability Office's *Federal Information*



*System Controls Audit Manual* provide control objectives and evaluation techniques that we used during our audit. Weaknesses in IT controls have been reported as a financial statement significant deficiency since the audit of the FY 2009 financial statements.

In accordance with the Federal Information Security Management Act of 2002 (FISMA), the Office of Inspector General (OIG) performed a review of the Department's information security program for FY 2014, including controls related to the Department's general support system.<sup>1</sup> The Department's general support system is the gateway for all of the Department's systems, including its financial management systems. Generally, control deficiencies noted in the support system are inherited by the other systems that reside on it. We did not perform additional work on the controls related to the general support system but instead relied on the work performed by OIG.

Overall, OIG found that the Department had implemented an information security program and had made progress during FY 2014 to address IT deficiencies identified in prior FISMA reports, but OIG continued to identify weaknesses in the risk management framework, plans of action and milestones, and the continuous monitoring program, which were collectively reported as a FISMA significant deficiency. A significant deficiency is the highest level of severity under FISMA. The weaknesses identified by OIG impact the Department's general support system, which is used to access the Department's financial management systems. Specifically, ineffective IT security controls increase the risk that sensitive financial information could be accessed by unauthorized individuals or that financial transactions could be altered either accidentally or intentionally. IT weaknesses increase the risk that the Department will be unable to report financial data accurately.

The focus of our IT-related audit work was primarily on financial system-specific deficiencies that could lead to significant misstatements of or corruption to the Department's financial data. Based on IT deficiencies identified by OIG with the general support system, we developed additional risk-based audit procedures to substantively test financial management system inputs and outputs. In addition, we tested and confirmed certain compensating controls that would mitigate some of the risks that were attributable to the general support system deficiencies. Our IT audit procedures identified a financial system control deficiency with the Global Employment Management System (GEMS), which is the Department's human resource system. We identified instances where users had access to security administration and human resources business activities—a combination generally considered incompatible. We also found that the Department did not effectively monitor user access or changes to user accounts within GEMS. Although the Department had developed a corrective action plan, the plan was not implemented during FY 2014 and was not complete. Inadequate segregation of duties and inadequate application monitoring contribute to an overall weakening of the internal control environment for GEMS and increase the risk that errors and irregularities could occur and remain undetected.

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<sup>1</sup> *Audit of the Department of State Information Security Program* (AUD-IT-15-17, Nov. 2014).



Although the Department had addressed several deficiencies in its financial management systems during FY 2014, the weaknesses identified by OIG during the FISMA audit and by us during the financial statement audit are considered to be a significant deficiency within the scope of our financial statement audit.

During the audit, we noted certain additional matters involving internal control over financial reporting that we will report to Department management in a separate letter.

### **Status of Prior Year Findings**

In the Independent Auditor's Report on Internal Control Over Financial Reporting included in the audit report on the Department's FY 2013 financial statements,<sup>2</sup> we noted several issues that were related to internal control over financial reporting. The status of the FY 2013 internal control findings are summarized in Table 1.

**Table 1. Status of Prior Year Findings**

Control Deficiency	FY 2013 Status	FY 2014 Status
<b>Financial Reporting</b>	Significant Deficiency	Significant Deficiency
<b>Property and Equipment</b>	Significant Deficiency	Significant Deficiency
<b>Budgetary Accounting</b>	Significant Deficiency	Significant Deficiency
<b>Validity and Accuracy of Unliquidated Obligations</b>	Significant Deficiency	Significant Deficiency
<b>Foreign Service Retirement and Disability Fund Data Inaccuracies and Timeliness</b>	Significant Deficiency	Closed
<b>Information Technology</b>	Significant Deficiency	Significant Deficiency

### **Department's Response to Findings**

Department management has provided its response to our findings in a separate memorandum attached to this report. We did not audit management's response, and accordingly, we express no opinion on it.

<sup>2</sup> *Independent Auditor's Report on the U.S. Department of State 2013 and 2012 Financial Statements* (AUD-FM-14-10, Dec. 2013).



### Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the effectiveness of the Department's internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 14-02 in considering the entity's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Kearney &amp; Company".

Alexandria, Virginia  
November 15, 2014



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH APPLICABLE  
PROVISIONS OF LAWS, REGULATIONS, CONTRACTS, AND GRANT  
AGREEMENTS**

To the Secretary and the Inspector General of the U.S. Department of State

We have audited the consolidated financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2014, and have issued our report thereon dated November 15, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

**Compliance**

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material impact on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02, including the provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA) that we determined were applicable. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests, exclusive of those related to FFMIA, disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 14-02 and which are summarized as follows:

- *Antideficiency Act*. This act prohibits the Department from (1) making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law; (2) involving the Government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law; and (3) making obligations or expenditures in excess of an apportionment or reapportionment, or in excess of the amount permitted by agency regulations. Our audit procedures identified Department of the Treasury fund symbols with negative balances that were potentially in violation of the Antideficiency Act. We also identified systemic issues in the Department's use of allotment overrides to exceed available allotment authority. Establishing obligations that exceed available allotment authority increases the risk of noncompliance with the Antideficiency Act.



- *Prompt Payment Act.* This act requires Federal agencies to make payments in a timely manner, pay interest penalties when payments are late, and take discounts only when payments are made within the discount period. The Department did not always make payments within 30 days, as required. Additionally, we found that the Department did not consistently pay interest penalties for domestic and overseas payments in accordance with the Prompt Payment Act.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. Although we did not identify any instances of substantial noncompliance with Federal accounting standards, we did identify instances, when combined, in which the Department's financial management systems and related controls did not substantially comply with certain Federal financial management systems requirements and the USSGL at the transaction level.

#### Federal Financial Management Systems Requirements

- The Department has long-standing weaknesses in its financial management systems regarding its capacity to account for and record financial information. For instance, the Department has significant deficiencies relating to financial reporting, property and equipment, budgetary accounting, and unliquidated obligations.
- During its annual evaluation of the Department's information security program, as required by the Federal Information Security Management Act, the Department's Office of Inspector General (OIG) identified weaknesses with computer security that it reported collectively as representing a significant deficiency.<sup>3</sup>
- The Department did not maintain effective administrative control of funds. Specifically, obligations were not created in a timely manner or were recorded in advance of an executed obligating document. In addition, there were systemic issues identified in the Department's use of allotment overrides.
- The Department did not always minimize waste, loss, unauthorized use, or misappropriation of Federal funds. For example, OIG reported more than \$45 million in questioned costs and funds put to better use during FY 2014.
- Interest was not always paid on overdue domestic and overseas payments.

#### Standard General Ledger at the Transaction Level

- The Department's financial management systems did not consistently post transactions to USSGL compliant accounts or track proprietary and budgetary account attributes consistent with the USSGL.
- General ledger account balances could not always be traced to discrete transactions. Further, discrete transactions could not always be traced to source documents.

<sup>3</sup> Audit of the Department of State Information Security Program (AUD-IT-15-17, Nov. 2014).



The Department had not implemented and enforced systematic financial management controls to ensure substantial compliance with FFMIA. The Department had not developed and executed remediation plans to address instances of noncompliance or validate compliance against criteria. The Department's ability to meet Federal financial management system requirements and fully process transaction-level data in accordance with the USSGL was hindered by limitations in systems and processes.

During the audit, we noted certain additional matters involving compliance that we will report to Department management in a separate letter.

#### **Department's Response to Findings**

Department management has provided its response to our findings in a separate memorandum attached to this report. We did not audit management's response, and accordingly, we express no opinion on it.

#### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 14-02 in considering the entity's compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Kearney &amp; Company".

Alexandria, Virginia  
November 15, 2014



**United States Department of State**

*Washington, D.C. 20520*

UNCLASSIFIED

November 16, 2014

MEMORANDUM

TO: OIG – Steve A. Linick

*Christina H. Flagg*

FROM: CGFS – Christopher H. Flagg

SUBJECT: Draft Report on the Department of State's Fiscal Year 2014 Financial Statements

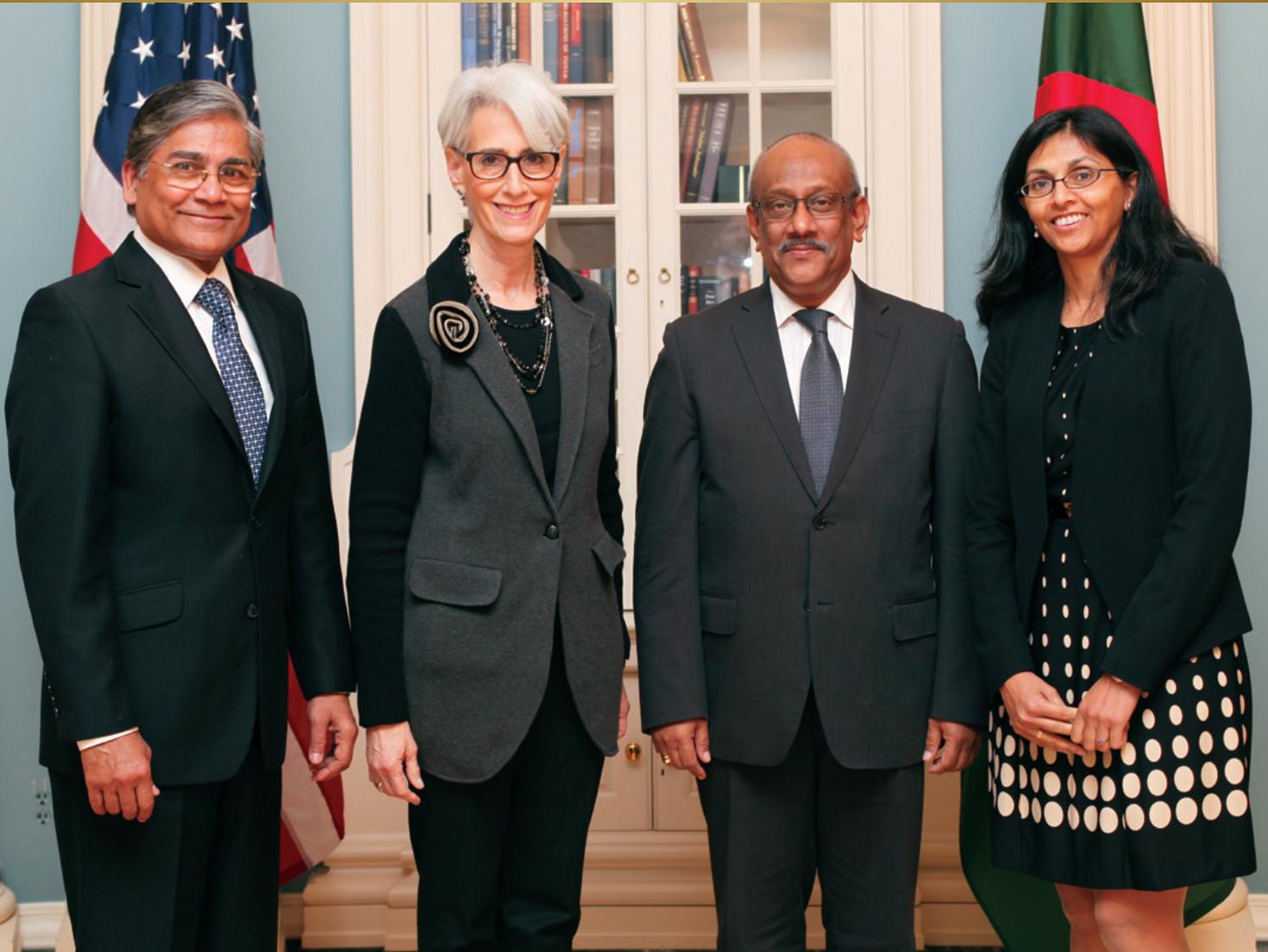
This memo is in response to your request for comments on the Draft Report of the Independent Auditor's Report (AUD-FM-15-07), Report on Internal Control Over Financial Reporting, and Report on Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements.

As the OIG is aware, the Department operates in over 270 locations and 180 countries in some of the most challenging environments. The scale and complexity of Department activities and corresponding financial management operations and requirements are immense. We understand and take this dynamic into account as we pursue an efficient, accountable, and transparent financial management platform that supports the Department's and broader U.S. Government's foreign affairs mission. Part of our accountability is the essential discipline of the annual external audit process and the issuance of the Department's annual audited financial statements. Few outside the financial community likely realize the time and effort that go into producing the audit and the Agency Financial Report, as we all work to demonstrate our commitment to strong financial management and to producing meaningful financial statements. It is a rigorous and exhaustive process.

This year was no exception. It has been a concerted and dedicated effort by all stakeholders involved. While we may not agree on every aspect of the process and findings, we certainly appreciate and extend our sincere thanks for the professionalism and commitment by all parties, including the Office of the Inspector General and Kearney & Company, to work together throughout the audit process. We know there will always be new challenges and concerns given our global operating environment and scope of compliance requirements. Nonetheless, we believe the Independent Auditor's Report reflects the continuous improvement we strive to achieve in the Bureau of the Comptroller and Global Financial Services and across the Department's financial management community. As expressed in the Independent Auditor's Report, we are pleased that the Department has received an unmodified ("clean") audit opinion on its FY 2014 and FY 2013 principal financial statements, and with no material weaknesses reported by the Independent Auditor.

We remain committed to strong corporate governance and internal controls as demonstrated by our robust system of internal controls overseen by our Senior Assessment Team (SAT), Management Control Steering Committee (MCSC), and validated by senior leadership. We appreciate the OIG participation in both the SAT and MCSC forums. For FY 2014, no material management control issues or material weaknesses in internal controls over financial reporting were identified by senior leadership. As a result, the Secretary was able to provide an unqualified Statement of Assurance for the Department's internal controls in accordance with the Federal Managers' Financial Integrity Act. In addition, prior significant deficiencies regarding the lack of an adequate federal financial assistance information system and Foreign Service Retirement and Disability Fund data inaccuracies and timeliness were closed.

We fully recognize that there is more to be done and that the items identified in the Draft Report will require our continued attention, action, and improvement. We look forward to working with you, Kearney & Company, and other stakeholders on addressing these issues in the coming year.



The United States and Bangladesh convene the third annual Partnership Dialogue. (L-R) Bangladesh Ambassador Mohammad Ziauddin, Under Secretary of State for Political Affairs Wendy Sherman, Bangladesh Foreign Secretary Md. Shahidul Haque, and Assistant Secretary Nisha Biswal in Washington, D.C., October 29, 2014. *Department of State*

# Introducing the Principal Financial Statements

The Principal Financial Statements (Statements) have been prepared to report the financial position and results of operations of the U.S. Department of State (Department). The Statements have been prepared from the books and records of the Department in accordance with formats prescribed by the Office of Management and Budget (OMB) in OMB Circular A-136, *Financial Reporting Requirements*, revised. The Statements are in addition to financial reports prepared by the Department in accordance with OMB and U.S. Department of the Treasury (Treasury) directives to monitor and control the status and use of budgetary resources, which are prepared from the same books and records. The Statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The Department has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation. Comparative data for 2013 are included.

The **Consolidated Balance Sheet** provides information on assets, liabilities, and net position similar to balance sheets reported in the private sector. Intra-departmental balances have been eliminated from the amounts presented.

The **Consolidated Statement of Net Cost** reports the components of the net costs of the Department's operations for the period. The net cost of operations consists of the gross cost incurred by the Department less any exchange (i.e., earned) revenue from our activities. Intra-departmental balances have been eliminated from the amounts presented.

The **Consolidated Statement of Changes in Net Position** reports the beginning net position, the transactions that affect net position for the period, and the ending net position. Intra-departmental transactions have been eliminated from the amounts presented.

The **Combined Statement of Budgetary Resources** provides information on how budgetary resources were made available and their status at the end of the year. Information in this statement is reported on the budgetary basis of accounting. Intra-departmental transactions have not been eliminated from the amounts presented.

The **Required Supplementary Information** contains a Combining Schedule of Budgetary Resources, information on deferred maintenance, and the condition of heritage assets held by the Department. The Combining Schedule of Budgetary Resources provides additional information on amounts presented in the **Combined Statement of Budgetary Resources**.

## CONSOLIDATED BALANCE SHEET

(dollars in millions)

As of September 30,	Notes	2014	2013
<b>ASSETS</b>	2		
Intragovernmental Assets:			
Fund Balances With Treasury	3	\$ 47,497	\$ 47,557
Investments, Net	4	17,836	17,408
Interest Receivable	4	157	163
Accounts Receivable, Net	5	119	311
Other Assets	8	1,329	822
Total Intragovernmental Assets		66,938	66,261
Accounts and Loans Receivable, Net	5	114	194
Cash and Other Monetary Assets	6	172	155
Property and Equipment, Net	7	18,954	17,559
Other Assets	8	610	598
<b>Total Assets</b>		\$ 86,788	\$ 84,767
Stewardship Property and Equipment; Heritage Assets	7		
<b>LIABILITIES</b>	9		
Intragovernmental Liabilities:			
Accounts Payable		\$ 220	\$ 247
Other Liabilities		252	365
Total Intragovernmental Liabilities		472	612
Accounts Payable		2,140	2,123
After-Employment Benefit Liability	10	19,589	20,566
International Organizations Liabilities	11	1,741	1,909
Other Liabilities	9,12	1,141	1,185
<b>Total Liabilities</b>		25,083	26,395
Contingencies and Commitments	13		
<b>NET POSITION</b>			
Unexpended Appropriations—Funds From Dedicated Collections		—	—
Unexpended Appropriations—Other Funds		38,428	38,212
Cumulative Results of Operations—Funds From Dedicated Collections	14	317	286
Cumulative Results of Operations—Other Funds		22,960	19,874
<b>Total Net Position</b>		61,705	58,372
<b>Total Liabilities and Net Position</b>		\$ 86,788	\$ 84,767

The accompanying notes are an integral part of this financial statement.

## CONSOLIDATED STATEMENT OF NET COST (NOTE 15)

(dollars in millions)

For the Year Ended September 30,	2014	2013
<b>Peace and Security</b>		
Total Cost	\$ 2,017	\$ 1,949
Earned Revenue	(93)	(51)
Net Program Costs	1,924	1,898
<b>Democracy, Human Rights and Governance</b>		
Total Cost	686	665
Earned Revenue	(26)	—
Net Program Costs	660	665
<b>Health, Education and Social Services</b>		
Total Cost	8,370	7,868
Earned Revenue	(1)	(1)
Net Program Costs	8,369	7,867
<b>Humanitarian, Economic Development and Environment</b>		
Total Cost	3,168	2,289
Earned Revenue	—	—
Net Program Costs	3,168	2,289
<b>International Organizations and Commissions</b>		
Total Cost	3,177	3,454
Earned Revenue	(8)	(9)
Net Program Costs	3,169	3,445
<b>Diplomatic and Consular Programs</b>		
Total Cost	13,385	12,800
Earned Revenue	(5,127)	(5,288)
Net Program Costs	8,258	7,512
<b>Administration of Foreign Affairs</b>		
Total Cost	2,575	2,710
Earned Revenue	(1,728)	(1,679)
Net Program Costs Before Assumption Changes	847	1,031
Actuarial (Gain)/Loss on Pension Assumption Changes (Notes 1 and 10)	(1,387)	360
Net Program Costs	(540)	1,391
<b>Total Cost and Gain/Loss on Assumption Changes</b>	<b>31,991</b>	<b>32,095</b>
<b>Total Revenue</b>	<b>(6,983)</b>	<b>(7,028)</b>
<b>Total Net Cost</b>	<b>\$ 25,008</b>	<b>\$ 25,067</b>

The accompanying notes are an integral part of this financial statement.

## CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

(dollars in millions)

For the Year Ended September 30,

	2014			2013	
	Funds From Dedicated Collections	All Other Funds	Consolidated Total	Consolidated Total	
<b>Cumulative Results of Operations</b>					
Beginning Balances	\$ 286	\$ 19,874	\$ 20,160	\$ 18,833	
Change in Accounting Principle Adjustments	—	—	—	(156)	
Beginning Balances, as adjusted	286	19,874	20,160	18,677	
<b>Budgetary Financing Sources:</b>					
Appropriations Used	—	28,579	28,579	27,075	
Non-exchange Revenue	1	57	58	41	
Donations	32	—	32	14	
Transfers in(out) without Reimbursement	44	21	65	(49)	
<b>Other Financing Sources:</b>					
Donations	—	—	—	—	
Imputed Financing from Costs Absorbed by Others	—	161	161	156	
Non-entity Collections	—	(770)	(770)	(687)	
<b>Total Financing Sources</b>	<b>77</b>	<b>28,048</b>	<b>28,125</b>	<b>26,550</b>	
Net Cost of Operations	(46)	(24,962)	(25,008)	(25,067)	
Net Change	31	3,086	3,117	1,483	
<b>Total Cumulative Results of Operations</b>	<b>317</b>	<b>22,960</b>	<b>23,277</b>	<b>20,160</b>	
<b>Unexpended Appropriations</b>					
Beginning Balances	\$ —	\$ 38,212	\$ 38,212	\$ 35,312	
<b>Budgetary Financing Sources:</b>					
Appropriations Received	—	29,764	29,764	32,573	
Appropriations Transferred in(out)	—	(277)	(277)	(197)	
Rescissions and Canceling Funds	—	(692)	(692)	(2,401)	
Appropriations Used	—	(28,579)	(28,579)	(27,075)	
Total Budgetary Financing Sources	—	216	216	2,900	
<b>Total Unexpended Appropriations</b>	<b>—</b>	<b>38,428</b>	<b>38,428</b>	<b>38,212</b>	
<b>Net Position</b>	<b>\$ 317</b>	<b>\$ 61,388</b>	<b>\$ 61,705</b>	<b>\$ 58,372</b>	

The accompanying notes are an integral part of this financial statement.

## COMBINED STATEMENT OF BUDGETARY RESOURCES (NOTE 16)

(dollars in millions)

For the Year Ended September 30,	2014	2013
<b>Budgetary Resources:</b>		
Unobligated balance, brought forward, October 1	\$ 21,873	\$ 17,481
Adjustment to unobligated balance brought forward, October 1 (+ or -)	22	(19)
Unobligated balance brought forward, October 1, as adjusted	21,895	17,462
Recoveries of prior year unpaid obligations	1,670	1,717
Other changes in unobligated balance (+ or -)	(583)	(477)
Unobligated balance from prior year budget authority, net	22,982	18,702
Appropriations (discretionary and mandatory)	30,424	31,467
Borrowing authority (discretionary and mandatory)	1	1
Contract authority (discretionary and mandatory)	—	—
Spending authority from offsetting collections (discretionary and mandatory)	11,064	10,394
<b>Total Budgetary Resources</b>	<b>\$ 64,471</b>	<b>\$ 60,564</b>
<b>Status of Budgetary Resources:</b>		
Obligations incurred	\$ 43,127	\$ 38,691
<b>Unobligated balance, end of year:</b>		
Apportioned	19,147	20,009
Exempt from apportionment	368	354
Unapportioned	1,829	1,510
Total unobligated balance, end of year	21,344	21,873
<b>Total Budgetary Resources</b>	<b>\$ 64,471</b>	<b>\$ 60,564</b>
<b>Change in Obligated Balance:</b>		
Unpaid obligations, brought forward, Oct 1 (gross)	\$ 26,664	\$ 27,543
Adjustments to unpaid obligations, start of year (+ or -)	(71)	148
Obligations incurred	43,127	38,691
Outlays (gross) (-)	(41,339)	(38,001)
Actual transfers, unpaid obligations (net) (+ or -)	—	—
Recoveries of prior year unpaid obligations (-)	(1,670)	(1,717)
Unpaid obligations, end of year	\$ 26,711	\$ 26,664
<b>Uncollected payments:</b>		
Uncollected payments, federal sources, brought forward, October 1 (-)	(872)	(784)
Adjustment to uncollected payments, federal sources, start of year (+ or -)	4	—
Change in uncollected payments, federal sources (+ or -)	489	(88)
Actual transfers, uncollected payments from federal source (net) (+ or -)	—	—
Uncollected payments, federal sources, end of year (-)	\$ (379)	\$ (872)
<b>Memorandum (non-add) entries:</b>		
Obligated balance, start of year (+ or -)	\$ 25,725	\$ 26,907
Obligated balance, end of year (net)	\$ 26,332	\$ 25,792
<b>Budget Authority and Outlays, Net:</b>		
Budget authority, gross (discretionary and mandatory)	\$ 41,489	\$ 41,862
Actual offsetting collections (discretionary and mandatory) (-)	(11,520)	(10,327)
Change in uncollected customer payments from federal sources (discretionary and mandatory) (+ or -)	489	(88)
Budget authority, net (discretionary and mandatory)	\$ 30,458	\$ 31,447
Outlays, gross (discretionary and mandatory)	41,339	38,001
Actual offsetting collections (discretionary and mandatory) (-)	(11,520)	(10,327)
Outlays, net (discretionary and mandatory)	29,819	27,674
Distributed offsetting receipts (-)	(388)	(452)
<b>Agency outlays, net (discretionary and mandatory)</b>	<b>\$ 29,431</b>	<b>\$ 27,222</b>

The accompanying notes are an integral part of this financial statement.

# Notes to the Principal Financial Statements

## ORGANIZATION

Congress established the U.S. Department of State (Department of State or Department), the senior Executive Branch department of the United States Government in 1789. The Department advises the President in the formulation and execution of U.S. foreign policy. The head of the Department, the Secretary of State, is the President's principal advisor on foreign affairs.



## Basis of Presentation and Accounting

The statements are prepared as required by the Chief Financial Officers (CFO) Act of 1990, as amended by the Government Management Reform Act of 1994. They are presented in accordance with the form and content requirements of the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fiscal Year

Unless otherwise designated all use of a year indicates fiscal year, e.g., 2014 equals Fiscal Year 2014.

### Reporting Entity and Basis of Consolidation

The accompanying principal financial statements present the financial activities and position of the Department of State. The Statements include all General, Special, Revolving, Trust, and Deposit funds established at the Department of the Treasury (Treasury) to account for the resources entrusted to Department management, or for which the Department acts as a fiscal agent or custodian (except fiduciary funds, see Note 19).

Included in the Department's reporting entity is the U.S. Section of the International Boundary and Water Commission (IBWC). Treaties in 1848, 1853, and 1970 established the boundary between the United States and Mexico that extends 1,954 miles, beginning at the Gulf of Mexico, following the Rio Grande a distance of 1,255 miles and eventually ending at the Pacific Ocean below California. Established in 1889, the IBWC has responsibility for applying the boundary and water treaties between the United States and Mexico and settling differences that may arise in their application.

The statements have been prepared from the Department's books and records, and are in accordance with the Department's Accounting Policies (the significant policies are summarized in this Note). The Department's Accounting Policies follow U.S. generally accepted accounting principles (GAAP) for Federal entities, as prescribed by the Federal Accounting Standards Advisory Board (FASAB). FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, incorporates the GAAP hierarchy into FASAB's authoritative literature.

Throughout the financial statements and notes, certain assets, liabilities, earned revenue, and costs have been classified as intragovernmental, which is defined as transactions made between two reporting entities within the Federal Government.

Transactions are recorded on both an accrual and budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred without regard to receipt or payment of cash. Budgetary accounting principles, on the other hand, are designed to facilitate compliance with legal requirements and controls over the use of Federal funds.

### Revenues and Other Financing Sources

Department operations are financed through appropriations, reimbursement for the provision of goods or services to

other Federal agencies, proceeds from the sale of property, certain consular-related and other fees, and donations. In addition, the Department collects passport, visa, and other consular fees that are not retained by the Department but are deposited directly to a Treasury account. The passport and visa fees are reported as earned revenues on the Statement of Net Cost and as a transfer-out of financing sources on the Statement of Changes in Net Position.

Congress annually enacts one-year and multi-year appropriations that provide the Department with the authority to obligate funds within the respective fiscal years for necessary expenses to carry out mandated program activities. In addition, Congress enacts appropriations that are available until expended. All appropriations are subject to OMB apportionment as well as congressional restrictions. For financial statement purposes, appropriations are recorded as a financing source (i.e., Appropriations Used) and reported on the Statement of Changes in Net Position at the time they are recognized as expenditures. Appropriations expended for capitalized property and equipment are recognized when the asset is purchased.

Work performed for other Federal agencies under reimbursable agreements is financed through the account providing the service and reimbursements are recognized as revenue when earned. Administrative support services at overseas posts are provided to other Federal agencies through the International Cooperative Administrative Support Services (ICASS). ICASS bills for the services it provides to agencies at overseas posts. These billings are recorded as revenue to ICASS and must cover overhead costs, operating expenses, and replacement costs for capital assets needed to carry on the operation. Proceeds from the sale of real property, vehicles, and other personal property are recognized as revenue when the proceeds are credited to the account that funded the asset. For non-capitalized property, the full amount realized is recognized as revenue. For capitalized property, revenue or loss is determined by whether the proceeds received were more or less than the net book value of the asset sold. The Department retains proceeds of sale, which are available for purchase of the same or similar category of property.

The Department is authorized to collect and retain certain user fees for machine-readable visas, expedited passport



**The U.S. Consulate in Monterrey serves more than 400,000 visa applicants each year, making it the fifth largest visa processing post in the world. The new Consulate General is targeting Leadership in Energy and Environmental Design Silver certification by the U.S. Green Building Council. The project has been designed to achieve an energy cost savings of 31 percent using the ASHRAE Standard. Department of State/OBO**

processing, and fingerprint checks on immigrant visa applicants. The Department is also authorized to credit the respective appropriations with (1) fees for the use of Blair House; (2) lease payments and transfers from the International Center Chancery Fees Held in Trust to the International Center Project; (3) registration fees for the Office of Defense Trade Controls; (4) reimbursement for international litigation expenses; and (5) reimbursement for training foreign government officials at the Foreign Service Institute.

Generally, donations received in the form of cash or financial instruments are recognized as revenue at their fair value in the period received. Contributions of services are recognized if the services received (1) create or enhance non-financial assets, or (2) require specialized skills that are provided by individuals possessing those skills, which would typically need to be purchased if not donated. Works of art, historical treasures, and similar assets that are added to collections are not recognized at the time of donation. If subsequently sold, proceeds from the sale of these items are recognized in the year of sale. More information on earned revenues can be found in Note 15.

### Allocation Transfers

Allocation transfers are legal delegations by one Federal agency of its authority to obligate budget authority and outlay funds to another agency. The Department processes allocation transfers with other Federal agencies as both a transferring (parent) agency of budget authority to a receiving (child) entity and as a receiving (child) agency of budget authority from a transferring (parent) entity. A separate fund account (allocation account) is created in the Treasury as a subset of the parent fund account for tracking and reporting purposes. Subsequent obligations and outlays incurred by the child agency are charged to this allocation account as they execute the delegated activity on behalf of the parent agency.

Generally, all financial activities related to allocation transfers (i.e., budget authority, obligations, outlays) are reported in the financial statements of the parent agency. Transfers from the Executive Office of the President, for which the Department is the receiving agency, is an exception to this rule. Per OMB guidance, the Department reports all activity relative to these allocation transfers in its financial statements. The Department allocates funds, as the parent, to the Departments of Defense, Labor (DOL), Treasury, Health and Human Services (HHS); the Peace Corps; and the U.S. Agency for International Development (USAID). In addition, the Department receives allocation transfers, as the child, from USAID.

### Fund Balances with Treasury and Cash and Other Monetary Assets

The Fund Balances with Treasury are available to pay accrued liabilities and finance authorized commitments relative to goods, services, and benefits. The Department does not maintain cash in commercial bank accounts for the funds reported in the Consolidated Balance Sheet, except for the Emergencies in the Diplomatic and Consular Services, Office of Foreign Missions, Foreign Service National Defined Contributions Retirement Fund, and the International Center. Treasury processes domestic cash receipts and disbursements on behalf of the Department and the Department's accounting records are reconciled with those of Treasury on a monthly basis.

The Department operates two Financial Service Centers located in Bangkok, Thailand and Charleston, South Carolina.

These provide financial support for the Department and other Federal agencies' operations overseas. The U.S. Disbursing Officer at each Center has the delegated authority to disburse funds on behalf of the Treasury. See Notes 3 and 6.

### Accounts and Loans Receivable

Intergovernmental Accounts Receivable are due principally from other Federal agencies for ICASS services, reimbursable agreements, and Working Capital Fund services. Accounts and Loans Receivable from non-Federal entities are primarily the result of repatriation loans and IBWC receivables for Mexico's share of IBWC activities. The U.S. and Mexican governments generally share the total costs of IBWC projects in proportion to their respective benefits in cases of projects for mutual control and utilization of the waters of a boundary river, unless the Governments have predetermined by treaty the division of costs according to the nature of a project.

The Department provides repatriation loans for destitute American citizens overseas whereby the Department becomes the lender of last resort. These loans provide assistance to pay for return transportation, food and lodging, and medical expenses. The borrower executes a promissory note without collateral. Consequently, the loans are made anticipating a low rate of recovery. Interest, penalties, and administrative fees are assessed if the loan becomes delinquent.

Accounts and Loans Receivable from non-Federal entities are subject to the full debt collection cycle and mechanisms, e.g., salary offset, referral to collection agents, and Treasury offset. In addition, Accounts Receivable from non-Federal entities are assessed interest, penalties, and administrative fees if they become delinquent. Interest and penalties are assessed at the Current Value of Funds Rate established by Treasury. Accounts Receivable is reduced to net realizable value by an Allowance for Uncollectible Accounts. This allowance is recorded using aging methodologies based on an analysis of past collections and write-offs. See Note 5 for more information on Accounts and Loans Receivable, Net.

### Interest Receivable

Interest earned on investments, but not received as of September 30, is recognized as interest receivable.



The new U.S. Embassy is situated on an 8-acre site on the Kings Road approximately three miles from the Rabat city center, in a residential and business neighborhood and meets all of the Department's standards for security. Designed by SmithGroupJJR, construction commenced in January 2012 and was completed in September 2014. *Department of State/OBO*

## Advances and Prepayments

Payments made in advance of the receipt of goods and services are recorded as advances or prepayments, and recognized as expenses when the related goods and services are received. Prepayments are made principally to other Federal entities for future services. Advances are made to Department employees for official travel, salary advances to Department employees transferring to overseas assignments, and other miscellaneous prepayments and advances for future services. Advances and prepayments are reported as Other Assets on the Consolidated Balance Sheet. Additional information may be found in Note 8.

## Investments

The Department has several accounts that have the authority to invest cash resources. For these accounts, the cash resources not required to meet current expenditures are invested in interest-bearing obligations of the U.S. Government. These investments consist of U.S. Treasury special issues and securities. Special issues are unique public debt obligations for purchase exclusively by the Foreign Service Retirement and Disability Fund and for which interest is computed and paid semi-annually on June 30 and December 31. They are purchased and redeemed at par, which is their carrying value on the Consolidated Balance Sheet.

Investments by the Department's Gift, Israeli Arab Scholarship, Eisenhower Exchange Fellowship, and Middle Eastern-Western Dialogue accounts are in U.S. Treasury

securities. Interest on these investments is paid semi-annually at various rates. These investments are reported at acquisition cost, which equals the face value net of unamortized discounts or premiums. Discounts and premiums are amortized over the life of the security using the straight-line method for Gift Funds investments, and effective interest method for the other accounts. Additional information on Investments can be found in Note 4.

## Property and Equipment

### *Real Property*

Real property assets primarily consist of facilities used for U.S. diplomatic missions abroad and capital improvements to these facilities, including unimproved land; residential and functional-use buildings such as embassy/consulate office buildings; office annexes and support facilities; and construction-in-progress. Title to these properties is held under various conditions including fee simple, restricted use, crown lease, and deed of use agreement. Some of these properties are considered historical treasures and are considered multi-use heritage assets. These items are reported on the Consolidated Balance Sheet, in Note 7 to the financial statements, and in the Heritage Assets Section.

The Department also owns several domestic real properties, including the National Foreign Affairs Training Center (Arlington, Va.); the International Center (Washington, D.C.); the Charleston Financial Services Center (S.C.); the Beltsville Information Management Center (Md.); the Florida Regional

Center (Ft. Lauderdale); and consular centers in Charleston, S.C., Portsmouth, N.H., and Williamsburg, Ky. The IBWC owns buildings and structures related to its boundary preservation, flood control, and sanitation programs.

Buildings and structures are carried at either actual or estimated historical cost. The Department capitalizes all costs for constructing new buildings and building acquisitions regardless of cost, and all other improvements of \$1 million or more. Costs incurred for constructing new facilities, major rehabilitations, or other improvements in the design or construction stage are recorded as construction-in-progress. After these projects are completed, costs are transferred to Buildings and Structures or Leasehold Improvements, as appropriate. Depreciation is computed on a straight-line basis over the asset's estimated life and begins when the property is placed into service. The estimated useful lives for real property are as follows:

Asset Category	Estimated Useful Life
Land Improvements	30 years
Buildings and Structures	10 to 50 years
Assets Under Capital Lease	Lease term or 30 years
Leasehold Improvements	Lesser of lease term or 10 years

### *Personal Property*

Personal property consists of several asset categories including aircraft, vehicles, security equipment, communication equipment, automated data processing (ADP) equipment, reproduction equipment, and software. The Department holds title to these assets, some of which are operated in unusual conditions, as described below.

The Department's Bureau of International Narcotics and Law Enforcement (INL) uses aircraft to help eradicate and stop the flow of illegal drugs. To accomplish its mission, INL maintains an aircraft fleet that is one of the largest Federal, nonmilitary fleets. Most of the aircraft are under direct INL air wing management. However, a number of aircraft are managed by host-countries. The Department holds title to most of the aircraft under these programs and requires congressional notification to transfer title for any aircraft to foreign governments. INL contracts with firms to provide maintenance support depending on whether the aircraft are INL air wing managed or host-country managed. INL air

wing managed aircraft are maintained to Federal Aviation Administration standards that involve routine inspection, as well as scheduled maintenance and replacements of certain parts after given hours of use. Host-country managed aircraft are maintained to host-country requirements, which are less than Federal Aviation Administration standards.

The Department also maintains a large vehicle fleet that operates overseas. Many vehicles require armoring for security reasons. For some locations, large utility vehicles are used instead of conventional sedans. In addition, the Department contracts with firms to provide support in strife-torn areas, such as Iraq and Afghanistan. Contractor support includes the purchase and operation of armored vehicles. Under the terms of the contracts, the Department has title to the contractor-held vehicles.

Personal property and equipment with an acquisition cost of \$25,000 or more, and a useful life of two or more years, is capitalized at cost. Additionally, all vehicles are capitalized, as well as ADP software with cost of \$500,000 or more. Except for contractor-held vehicles in Iraq and Afghanistan, depreciation is calculated on a straight-line basis over the asset's estimated life and begins when the property is placed into service. Contractor-held vehicles in Iraq and Afghanistan, due to the harsh operating conditions, are depreciated on a double-declining balance basis. The estimated useful lives for personal property are as follows:

Asset Category	Estimated Useful Life
<b>Aircraft:</b>	
INL air wing managed	10 years
Host-country managed	5 years
<b>Vehicles:</b>	
Department managed	3 to 6 years
Contractor-held in Iraq and Afghanistan	2 1/2 years
Security Equipment	3 to 15 years
Communication Equipment	3 to 20 years
Automated Data Processing Equipment	3 to 6 years
Reproduction Equipment	3 to 15 years
Software	Estimated useful life or 5 years

See Note 7, *Property and Equipment, Net*, for additional information.

### **Capital Leases**

Leases are accounted for as capital leases if they meet one of the following criteria: (1) the lease transfers ownership of the property by the end of the lease term; (2) the lease contains an option to purchase the property at a bargain price; (3) the lease term is equal to or greater than 75 percent of the estimated useful life of the property; or (4) at the inception of the lease, the present value of the minimum lease payment equals or exceeds 90 percent of the fair value of the leased property. The initial recording of a lease's value (with a corresponding liability) is the lesser of the net present value of the lease payments or the fair value of the leased property. Capital leases that meet criteria (1) or (2) are depreciated over the useful life of the asset (30 years). Capital leases that meet criteria (3) or (4) are depreciated over the term of the lease. Capital leases are amortized over the term of the lease; if the lease has an indefinite term, the term is capped at 50 years. Additional information on capital leases is disclosed in Note 12, *Leases*.

### **Stewardship Property and Equipment**

Stewardship Property and Equipment, or Heritage Assets, are assets that have historical or natural significance; are of cultural, educational, or artistic importance; or have significant architectural characteristics. They are generally considered priceless and are expected to be preserved indefinitely. As such, these assets are reported in terms of physical units rather than cost or other monetary values. See Note 7.

### **Grants**

The Department awards educational, cultural exchange, and refugee assistance grants to various individuals, universities, and non-profit organizations. Budgetary obligations are recorded when grants are awarded. Grant funds are disbursed in two ways: grantees draw funds commensurate with their immediate cash needs via HHS' Payments Management System; or grantees submit invoices. In both cases, the expense is recorded upon disbursement.

### **Accounts Payable**

Accounts payable represent the amounts accrued for contracts for goods and services received but unpaid at the end of the fiscal year and unreimbursed grant expenditures. In addition to accounts payables recorded through normal business activities, unbilled payables are estimated based on historical data.

### **Accrued Annual, Sick, and Other Leave**

Annual leave is accrued as it is earned by Department employees, and the accrual is reduced as leave is taken. Throughout the year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. The amount of the adjustment is recorded as an expense. Current or prior year appropriations are not available to fund annual leave earned but not taken. Funding occurs in the year the leave is taken and payment is made. Sick leave and other types of non-vested leave are expensed as taken.

### **Employee Benefit Plans**

**Retirement Plans:** Civil Service employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Members of the Foreign Service participate in either the Foreign Service Retirement and Disability System (FSRDS) or the Foreign Service Pension System (FSPS).

Employees covered under CSRS contribute 7 percent of their salary; the Department contributes 7 percent. Employees covered under CSRS also contribute 1.45 percent of their salary to Medicare insurance; the Department makes a matching contribution. On January 1, 1987, FERS went into effect pursuant to Public Law No. 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, were allowed to join FERS or remain in CSRS. Employees participating in FERS contribute 0.8 percent of their salary, with the Department making contributions of 11.2 percent. FERS employees also contribute 6.2 percent to Social Security and 1.45 percent to Medicare insurance. The Department makes matching contributions to both. A primary feature of FERS is that it offers a Thrift Savings Plan (TSP) into which the Department automatically contributes 1 percent of pay and matches employee contributions up to an additional 4 percent.

Foreign Service employees hired prior to January 1, 1984 participate in FSRDS, with certain exceptions. FSPS was established pursuant to Section 415 of Public Law No. 99-335, which became effective June 6, 1986. Foreign Service employees hired after December 31, 1983 participate in FSPS with certain exceptions. FSRDS employees contribute 7.25 percent of their salary; the Department contributes 7.25 percent. FSPS employees contribute 1.35 percent of their

salary; the Department contributes 20.22 percent. FSRDS and FSPS employees contribute 1.45 percent of their salary to Medicare; the Department matches their contribution. FSPS employees also contribute 6.2 percent to Social Security; the Department makes a matching contribution. Similar to FERS, FSPS also offers the TSP.

Foreign Service National (FSN) employees at overseas posts who were hired prior to January 1, 1984, are covered under CSRS. FSN employees hired after that date are covered under a variety of local government plans in compliance with the host country's laws and regulations. In cases where the host country does not mandate plans or the plans are inadequate, employees are covered by plans that conform to the prevailing practices of comparable employers.

**Health Insurance:** Most American employees participate in the Federal Employees Health Benefits Program (FEHBP), a voluntary program that provides protection for enrollees and eligible family members in cases of illness and/or accident. Under FEHBP, the Department contributes the employer's share of the premium as determined by the U.S. Office of Personnel Management (OPM).

**Life Insurance:** Unless specifically waived, employees are covered by the Federal Employees Group Life Insurance Program (FEGLIP). FEGLIP automatically covers eligible employees for basic life insurance in amounts equivalent to an employee's annual pay, rounded up to the next thousand dollars plus \$2,000. The Department pays one-third and employees pay two-thirds of the premium. Enrollees and their family members are eligible for additional insurance coverage, but the enrollee is responsible for the cost of the additional coverage.

**Other Post Employment Benefits:** The Department does not report CSRS, FERS, FEHBP, or FEGLIP assets, accumulated plan benefits, or unfunded liabilities applicable to its employees; OPM reports this information. As required by SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, the Department reports the full cost of employee benefits for the programs that OPM administers. The Department recognizes an expense and imputed financing source for the annualized unfunded portion of CSRS, post-retirement health benefits, and life insurance for employees covered by these programs. The additional costs are not owed or paid to OPM, and thus

are not reported on the Consolidated Balance Sheet as a liability. Instead, they are reported as an imputed financing source from costs absorbed from others on the Consolidated Statement of Changes in Net Position.

### Future Workers' Compensation Benefits

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to cover Federal employees injured on the job or who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to job-related injury or occupational disease. The DOL administers the FECA program. DOL initially pays valid claims and bills the employing Federal agency. DOL calculates the actuarial liability for future workers' compensation benefits and reports to each agency its share of the liability.

### Foreign Service Retirement and Disability Fund

The Department manages the Foreign Service Retirement and Disability Fund (FSRDF). To ensure it operates on a sound financial basis, the Department retains an actuarial firm to perform a valuation to project if the Fund's assets together with the expected future contributions are adequate to cover the value of future promised benefits. To perform this valuation the actuary projects the expected value of future benefits and the stream of expected future employer and employee contributions. The valuation serves as a basis for the determination of the needed employer contributions to the retirement fund and is based on a wide variety of economic assumptions, such as assumed investment returns, and demographic assumptions, such as rates of mortality. Since both the economic and demographic experience change over time, it is essential to conduct periodic reviews of the actual experience and to adjust the assumptions in the valuation, as appropriate. To reflect the most recent experience and future expectations, approximately every five years, including 2014, the actuary is retained to conduct this review, known as an Actuarial Experience Study.

The changes resulting from the 2014 study are described later in this note. Also see Note 10, *After-Employment Benefit Liability*, for the Department's accounting policy for FSRDF retirement-related benefits and the associated actuarial present value of projected plan benefits.

## Foreign Service Nationals' After-Employment Benefits

**Defined Contributions Fund (DCF)** – This fund provides retirement benefits for FSN employees in countries where the Department has made a public interest determination to discontinue participation in the Local Social Security System. Title 22, Foreign Relations and Intercourse, Section 3968, Local Compensation Plans, provides the authority to the Department to establish such benefits as part of a total compensation plan for these employees.

**Defined Benefit Plans** – The Department has implemented various arrangements for defined benefit pension plans in other countries, for the benefit of some FSN employees. Some of these plans supplement the host country's equivalent to U.S. social security, others do not. While none of these supplemental plans are mandated by the host country, some are substitutes for optional tiers of a host country's social security system. The Department accounts for these plans under the provisions and guidance contained in International Accounting Standard (IAS) No. 19, *Employee Benefits*. IAS No. 19 provides a better structure for the reporting of these plans which are established in accordance with local practices in countries overseas.

**Lump Sum Retirement and Severance** – Under some local compensation plans, FSN employees are entitled to receive a lump-sum separation payment when they resign, retire, or otherwise separate through no fault of their own. The amount

of the payment is generally based on length of service, rate of pay at the time of separation, and the type of separation.

## International Organization Liabilities

The United States is a member of the United Nations (UN) and other international organizations and supports UN peacekeeping operations. As such, the United States either contributes to voluntary funds or an assessed share of the budgets and expenses of these organizations and activities. These payments are funded through congressional appropriations to the Department. The purpose of these appropriations is to ensure continued American leadership within those organizations and activities that serve important U.S. interests. Funding by appropriations for dues assessed for certain international organizations is not received until the fiscal year following assessment. These commitments are regarded as funded only when monies are authorized and appropriated by Congress. For financial reporting purposes, the amounts assessed, pledged, and unpaid are reported as liabilities of the Department. Additional information is disclosed in Note 11.

## Contingent Liabilities

Contingent liabilities are liabilities where the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The Department



U.S. Secretary of State John Kerry addresses members of the Embassy Baghdad Marine Security Guard detachment before a staff meet-and-greet amid meetings in Iraq with Prime Minister Nouri al-Maliki and other national leaders, Baghdad, Iraq, June 23, 2014.

Department of State

recognizes contingent liabilities when the liability is probable and reasonably estimable. See Note 13.

### Net Position

The Department's net position contains the following components:

**Unexpended Appropriations** – Unexpended appropriations is the sum of undelivered orders and unobligated balances. Undelivered orders represent the amount of obligations incurred for goods or services ordered, but not yet received. An unobligated balance is the amount available after deducting cumulative obligations from total budgetary resources. As obligations for goods or services are incurred, the available balance is reduced.

**Cumulative Results of Operations** – The cumulative results of operations include (1) the accumulated difference between revenues and financing sources less expenses since inception; (2) the Department's investment in capitalized assets financed by appropriation; (3) donations; and (4) unfunded liabilities, whose liquidation may require future congressional appropriations or other budgetary resources.

Net position of funds from dedicated collections (formerly "earmarked funds") is separately disclosed. See Note 14.

### Foreign Currency

Accounting records for the Department are maintained in U.S. dollars, while a significant amount of the Department's overseas expenditures are in foreign currencies. For accounting purposes, overseas obligations and disbursements are recorded in U.S. dollars based on the rate of exchange as of the date of the transaction. Foreign currency payments are made by the U.S. Disbursing Office.

### Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold.

The Department's fiduciary activities are not recognized on the principal financial statements, but are reported on schedules as a note to the financial statements. The Department's fiduciary activities include receiving contributions from donors for the purpose of providing compensation for certain claims within the scope of an established agreement, investment of contributions into Treasury securities, and disbursement of contributions received within the scope of the established agreement. See Note 19.

### Change in Accounting Estimate

The *Foreign Service Retirement Plans Actuarial Experience Study 2008 – 2013*, mentioned earlier in this note, resulted in significant actuarial assumptions changes, both economic and demographic. These changes to the assumptions used to project the valuation of the FSRDF actuarial liability resulted in an actuarial gain in 2014 as noted on the Statement of Net Cost. For a further description and itemization, see Note 10.

### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, and exercise judgment that affects the reported amounts of assets, liabilities, net position, and disclosure of contingent liabilities as of the date of the financial statements, and the reported amounts of revenues, financing sources, expenses, and obligations incurred during the reporting period. These estimates are based on management's best knowledge of current events, historical experience, actions the Department may take in the future, and various other assumptions that are believed to be reasonable under the circumstances. Due to the size and complexity of many of the Department's programs, the estimates are subject to a wide range of variables, including assumptions on future economic and financial events. Accordingly, actual results could differ from those estimates.

### Comparative Data

Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

**2 ASSETS**

The Department's assets are classified as entity or non-entity. Entity assets are those assets that the Department has authority to use for its operations. Non-entity assets are those held by the Department that are not available for use in its operations. Total non-entity assets at both September

30, 2014 and 2013, were \$15 million, for amounts in the Chancery Development Trust Account. These items are included in Cash and Other Monetary Assets (See Note 6, *Cash and Other Monetary Assets* for further information).

**3 FUND BALANCES WITH TREASURY**

Fund Balances with Treasury at September 30, 2014 and 2013, are summarized below (*dollars in millions*).

Fund Balances	2014	2013	Status of Fund Balances	2014	2013
Appropriated Funds	\$ 44,550	\$ 45,451	Unobligated Balances Available	\$ 19,515	\$ 20,363
Revolving Funds	2,397	1,558	Unobligated Balances Unavailable	1,829	1,510
Trust Funds	413	379	Obligated Balances not yet Disbursed	26,180	25,668
Special Funds	164	153	Total Unobligated and Obligated	47,524	47,541
Deposit & Receipt Accounts	(27)	16	Deposit and Receipt Funds	(27)	16
Total	\$ 47,497	\$ 47,557	Total	\$ 47,497	\$ 47,557



The U.S. ambassador's residence in Dublin, built in 1776, is one of two estates in Phoenix Park. The Georgian mansion is one of only two residential properties in the city's sprawling Phoenix Park and the other is the home of the Irish president. *Department of State/OBO*

## 4 INVESTMENTS

Investments at September 30, 2014 and 2013, are summarized below (*dollars in millions*). All investments are classified as Intragovernmental Securities.

At September 30, 2014:	Net Investment	Market Value	Maturity Dates	Interest Rates Range	Interest Receivable
Non-Marketable, Par Value:					
Special Issue Securities	\$ 17,792	\$ 17,792	2015-2028	1.375%-6.500%	\$ 157
Subtotal	17,792	17,792			157
Non-Marketable, Market Based:					
Israeli Arab Scholarship Fund	5	5	2015	0.250%	—
Eisenhower Exchange Fellowship Fund	8	8	2015-2019	3.000%-8.875%	—
Middle Eastern-Western Dialogue Fund	15	15	2014-2019	0.250%-1.250%	—
Gift Funds, Treasury Bills	16	16	2014-2017	0.750%-3.125%	—
Subtotal	44	44			—
Total Investments	\$ 17,836	\$ 17,836			\$ 157

At September 30, 2013:	Net Investment	Market Value	Maturity Dates	Interest Rates Range	Interest Receivable
Non-Marketable, Par Value:					
Special Issue Securities	\$ 17,364	\$ 17,364	2015-2028	1.375%-6.500%	\$ 163
Subtotal	17,364	17,364			163
Non-Marketable, Market Based:					
Israeli Arab Scholarship Fund	5	5	2015	0.250%	—
Eisenhower Exchange Fellowship Fund	8	8	2014-2019	3.000%-8.875%	—
Middle Eastern-Western Dialogue Fund	15	15	2013-2019	0.250%-1.250%	—
Gift Funds, Treasury Bills	16	16	2014-2017	0.750%-3.125%	—
Subtotal	44	44			—
Total Investments	\$ 17,408	\$ 17,408			\$ 163

The Department's activities that have the authority to invest cash resources are Funds from Dedicated Collections (see Note 14). The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash receipts collected from the public for funds from dedicated collections are deposited in the Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the

Department as evidence of its receipts. Treasury securities are an asset to the Department and a liability to the Treasury. Because the Department and the Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or liability in the U.S. Government-wide financial statements.

*(continued on next page)*

**NOTE 4: Investments (continued)**

Treasury securities provide the component entity with authority to draw upon the Treasury to make future benefits payments or other expenditures. When the Department requires redemption of these securities to make expenditures, the Government finances those expenditures out of

accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. The Government finances most expenditures in this way.

## 5 ACCOUNTS AND LOANS RECEIVABLE, NET

The Department's Accounts Receivable and Loans Receivable, Net at September 30, 2014 and 2013, are summarized here (*dollars in millions*). All are entity receivables.

	2014			2013		
	Entity Receivables	Allowance for Uncollectible	Net Receivables	Entity Receivables	Allowance for Uncollectible	Net Receivables
Intragovernmental Accounts Receivable	\$ 174	\$ (55)	\$ 119	\$ 362	\$ (51)	\$ 311
Non-Intragovernmental Accounts and Loans Receivable	150	(36)	114	234	(40)	194
<b>Total Receivables</b>	<b>\$ 324</b>	<b>\$ (91)</b>	<b>\$ 233</b>	<b>\$ 596</b>	<b>\$ (91)</b>	<b>\$ 505</b>

The allowances for uncollectible accounts are recorded using aging methodologies based on analysis of historical collections and write-offs.

The total accounts and loans receivable for 2014, net of allowance for uncollectible accounts, is \$233 million. This balance consists of \$174 million in Federal intragovernmental reimbursable agreements for providing goods and services to other Federal agencies. The \$150 million in accounts and loans receivables due from non-Federal entities consists of \$2 million in repatriation loans and associated administration fees. Repatriation Loans enable destitute American citizens overseas to return to the United States. The remaining \$148 million consist mainly of civil monetary fines and penalties and Value Added Taxes (VAT). Civil monetary fines and penalties are assessed on individuals for such infractions as violating the terms and munitions licenses, exporting unauthorized defense articles and services, and violation of manufacturing licenses agreements. VAT receivables are for taxes paid on purchases overseas in which the Department has reimbursable agreements with the country for taxes it pays.



**U.S. Consulate General Guayaquil's construction commenced in 2009 and was completed in November 2013. The permanent art collection is intended to celebrate one of Ecuador's greatest resources, its natural beauty, and the many ways it has inspired both American and Ecuadorian artists. Department of State/OBO**

## 6 CASH AND OTHER MONETARY ASSETS

The Cash and Other Monetary Assets at September 30, 2014 and 2013, are summarized below (*dollars in millions*). There are no restrictions on entity cash. Non-entity cash is restricted as discussed below.

	2014			2013		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
After-Employment Benefit Assets	\$ 150	\$ —	\$ 150	\$ 135	\$ —	\$ 135
Emergencies in the Diplomatic and Consular Service	6	—	6	5	—	5
Chancery Development						
Trust Accounts:						
Treasury Bills, at par	—	15	15	—	15	15
Unamortized Discount	—	—	—	—	—	—
Other	1	—	1	—	—	—
Total	\$ 157	\$ 15	\$ 172	\$ 140	\$ 15	\$ 155

### FOREIGN SERVICE NATIONAL AFTER-EMPLOYMENT BENEFIT ASSETS

The Defined Contributions Fund (FSN DCF) provides retirement benefits for FSN employees in countries where the Department has made a public interest determination to discontinue participation in the Local Social Security System (LSSS). Title 22, Foreign Relations and Intercourse, Section 3968, Local Compensation Plans, provides the authority to the Department to establish such benefits and identifies as part of a total compensation plan for these employees. The FSN DCF is administered by a third party who invests excess funds in Treasury securities on behalf of the Department. The other monetary assets reported for the FSN DCF is \$150 million and \$135 million as of September 30, 2014 and 2013, respectively.

### CHANCERY DEVELOPMENT TRUST ACCOUNT

Lease fees collected from foreign governments by the Department for the International Chancery Center are deposited into an escrow account called the Chancery Development Trust Account. The funds are unavailable to the Department at time of deposit, and do not constitute expendable resources until funds are necessary for additional work on the Center project. The Chancery Development Trust account invests in six-month marketable Treasury bills issued at a discount and redeemable for par at maturity. A corresponding liability for the amounts is reflected as Funds Held in Trust and Deposit amounts.

## 7 PROPERTY AND EQUIPMENT, NET

Property and Equipment, Net balances at September 30, 2014 and 2013, are shown in the following table (*dollars in millions*).

Major Classes	2014			2013		
	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value
<b>Real Property:</b>						
<b>Overseas —</b>						
Land and Land Improvements	\$ 2,403	\$ (62)	\$ 2,341	\$ 2,216	\$ (51)	\$ 2,165
Buildings and Structures	16,415	(6,201)	10,214	15,276	(5,683)	9,593
Construction-in-Progress	3,396	—	3,396	2,980	—	2,980
Assets Under Capital Lease	110	(33)	77	108	(39)	69
Leasehold Improvements	548	(306)	242	473	(281)	192
<b>Domestic —</b>						
Structures, Facilities and Leaseholds	1,332	(417)	915	1,191	(379)	812
Construction-in-Progress	111	—	111	184	—	184
Land and Land Improvements	81	(7)	74	81	(7)	74
<b>Total — Real Property</b>	<b>24,396</b>	<b>(7,026)</b>	<b>17,370</b>	<b>22,509</b>	<b>(6,440)</b>	<b>16,069</b>
<b>Personal Property:</b>						
Aircraft	856	(368)	488	842	(348)	494
Vehicles	1,031	(502)	529	1,007	(447)	560
Communication Equipment	25	(19)	6	27	(18)	9
ADP Equipment	150	(96)	54	135	(86)	49
Reproduction Equipment	10	(6)	4	11	(7)	4
Security	207	(86)	121	187	(74)	113
Software	432	(349)	83	404	(320)	84
Software-in-Development	119	—	119	98	—	98
Other Equipment	291	(111)	180	178	(99)	79
<b>Total — Personal Property</b>	<b>3,121</b>	<b>(1,537)</b>	<b>1,584</b>	<b>2,889</b>	<b>(1,399)</b>	<b>1,490</b>
<b>Total Property and Equipment, Net</b>	<b>\$ 27,517</b>	<b>\$ (8,563)</b>	<b>\$ 18,954</b>	<b>\$ 25,398</b>	<b>\$ (7,839)</b>	<b>\$ 17,559</b>

(continued on next page)

*NOTE 7: Property and Equipment, Net (continued)*

## STEWARDSHIP PROPERTY AND EQUIPMENT; HERITAGE ASSETS

The Department maintains collections of art, furnishings and real property (Culturally Significant Property) that are held for public exhibition, education and official functions for visiting chiefs of State, heads of government, foreign ministers and other distinguished foreign and American guests. As the lead institution conducting American diplomacy, the Department uses this property to promote national pride and the distinct cultural diversity of American artists, as well as to recognize the historical, architectural and cultural significance of America's holdings overseas.

There are eight separate collections of art and furnishings: the Diplomatic Reception Rooms Collection, the Art Bank Program, Art in Embassies Program, Cultural Heritage Collection, the Library Rare and Special Book Collection, the Secretary of State's Register of Culturally Significant Property, the U.S. Diplomacy Center, and the Blair House. The collections, activity of which is shown in the following table and described more fully in the Required Supplementary Information and Other Information sections of this report, consist of items that were donated, purchased using donated or appropriated funds, or on loan from individuals, organizations and museums. The Department provides protection and preservation services to maintain all Heritage Assets in good condition forever as part of America's history.

HERITAGE ASSETS For the Years Ended September 30, 2013 and 2014				
	Diplomatic Reception Rooms Collection	Art Bank Program	Art in Embassies Program	Cultural Heritage Collection
<b>Description</b>	Collectibles - Art and furnishings from the period 1750 to 1825	Collection of American works of art on paper	Collectibles - American works of art	Collections include fine and decorative arts and other cultural objects
<b>Acquisition and Withdrawal</b>	Acquired through donation or purchase using donated funds. Excess items are sold.	Acquired through purchase. Excess items are transferred.	Acquired through purchase or donation. Excess items are sold.	The program provides assessment, preservation, and restoration as needed
<b>Condition</b>	Good to excellent	Good to excellent	Good to excellent	Good to excellent
<b>Number of Assets - 9/30/2012</b>	1,767	2,451	987	16,870
Acquisitions	14	22	73	606
Adjustments	14	2		629
Disposals	13	50	6	205
<b>Number of Assets - 9/30/2013</b>	1,782	2,425	1,054	17,900
<b>Deferred Maintenance - 9/30/2013</b>	N/A	N/A	N/A	N/A
Acquisitions	13	75	16	68
Adjustments	6		1	355
Disposals	69		1	117
<b>Number of Assets - 9/30/2014</b>	1,732	2,500	1,070	18,206
<b>Deferred Maintenance - 9/30/2014</b>	N/A	N/A	N/A	N/A

*(continued on next page)*



**U.S. Secretary of State John Kerry shows Japanese Foreign Minister Fumio Kishida the desk where the 1783 Treaty of Paris, ending the Revolutionary War, was signed, in the John Quincy Adams State Drawing Room during his visit to the U.S. Department of State in Washington, D.C., February 7, 2014. *Department of State***

HERITAGE ASSETS (continued) For the Years Ended September 30, 2013 and 2014				
	Library Rare & Special Book Collection	Secretary of State's Register of Culturally Significant Property	U.S. Diplomacy Center	Blair House
<b>Description</b>	Collectibles - Rare books and other publications of historic value	Noncollection - Buildings of historic, cultural, or architectural significance	Collectibles - Historic artifacts, art and other cultural objects	Collections of fine and decorative arts, furnishings, artifacts, other cultural objects, rare books and archival materials in national historic landmark buildings
<b>Acquisition and Withdrawal</b>	Acquired through donation.	Acquired through purchase. Excess items are sold.	Acquired through donation or transfer. Excess items are transferred.	Acquired through purchase, donation or transfer. Excess items are transferred or disposed of via public sale.
<b>Condition</b>	Poor to good	Poor to excellent	Good to excellent	Good to excellent
<b>Number of Assets - 9/30/2012</b>	1,052	25	2719	2609
Acquisitions	13		107	
Adjustments			13	8
Disposals	4		12	1
<b>Number of Assets - 9/30/2013</b>	1,061	25	2,827	2,616
<b>Deferred Maintenance - 9/30/2013</b>	N/A	\$1,737,000	N/A	N/A
Acquisitions	53	1	252	2
Adjustments			11	1
Disposals	2		2	
<b>Number of Assets - 9/30/2014</b>	1,112	26	3,088	2,619
<b>Deferred Maintenance - 9/30/2014</b>	N/A	\$2,555,000	N/A	N/A

## 8 ADVANCES, PREPAYMENTS, AND OTHER ASSETS

The Department's Other Assets include advances and prepayments in support of programs including HIV/AIDS, Child Health and Survival, Diplomatic and Consular, and Overseas Buildings Operations plus salary/travel advances to employees and inventory. The Department's Other Assets as of September 30, 2014 and 2013, are summarized to the right (*dollars in millions*).

	2014	2013
<b>Intragovernmental Assets:</b>		
Other Advances and Prepayments	\$ 1,329	\$ 822
<b>Non-Intragovernmental Advances:</b>		
Salary Advances	10	9
Travel Advances	13	12
Other Advances and Prepayments	572	562
Inventory	15	15
<b>Total Other Assets</b>	<b>1,939</b>	<b>\$ 1,420</b>

## 9 OTHER LIABILITIES

The Department's Other Liabilities at September 30, 2014 and 2013, are summarized below (*dollars in millions*).

	2014			2013		
	Current	Non-Current	Total	Current	Non-Current	Total
<b>Intragovernmental</b>						
Deferred Revenue	\$ 177	\$ —	\$ 177	\$ 258	\$ —	\$ 258
Custodial Liability	28	—	28	60	—	60
Other Liabilities	47	—	47	47	—	47
<b>Total Intragovernmental</b>	<b>252</b>	<b>—</b>	<b>252</b>	<b>365</b>	<b>—</b>	<b>365</b>
 Federal Employees Compensation Act Benefits	 97	 —	 97	 88	 —	 88
Capital Lease Liability	12	86	98	11	78	89
Accrued Salaries Payable	268	—	268	244	—	244
Contingent Liability	—	10	10	—	30	30
Pension Benefits Payable	60	—	60	59	—	59
Accrued Annual Leave	—	366	366	—	354	354
Funds Held in Trust and Deposit Accounts	—	15	15	—	15	15
Environmental Liability	—	146	146	—	156	156
Other Liabilities	79	—	79	148	—	148
Deferred Revenues	2	—	2	2	—	2
<b>Subtotal</b>	<b>518</b>	<b>623</b>	<b>1,141</b>	<b>552</b>	<b>633</b>	<b>1,185</b>
<b>Total Other Liabilities</b>	<b>\$ 770</b>	<b>\$ 623</b>	<b>\$ 1,393</b>	<b>\$ 917</b>	<b>\$ 633</b>	<b>\$ 1,550</b>

### ENVIRONMENTAL LIABILITY ASSOCIATED WITH ASBESTOS CLEANUP AND OTHER

The Department has estimated both friable, \$17 million, and nonfriable, \$128 million, asbestos-related cleanup costs and recognized a liability and related expense for those costs that are both probable and reasonably estimable as of September 30, 2014, consistent with the current guidance

in the Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*; SFFAS No. 6, *Accounting for Property, Plant, and Equipment, Chapter 4: Cleanup Costs*; and Technical Release (TR) 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*. The remaining \$1 million in environmental liability is non-asbestos related cleanup costs for lead based paint.

NOTE 9: Other Liabilities (continued)

## LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The Department's liabilities are classified as covered by budgetary resources or not covered by budgetary resources. Liabilities not covered by budgetary resources result from the receipt of goods and services, or occurrence of eligible events in the current or prior periods, for which revenue or other funds to pay the liabilities have not been made available through appropriations or current earnings of the Department. The liabilities in this category at September 30, 2014 and 2013 are summarized in the Schedule of Liabilities Not Covered by Budgetary Resources (*dollars in millions*).

Liabilities Not Covered by Budgetary Resources	2014	2013
Intragovernmental Liabilities		
Unfunded FECA Liability	\$ 21	\$ 21
Custodial Liability	28	60
Total Intragovernmental Liabilities	49	81
International Organizations Liabilities	1,136	1,261
After-Employment Benefit Liability:		
Foreign Service Retirement Actuarial Liability	1,197	2,592
Foreign Service Nationals (FSN):		
Defined Contributions Fund	147	135
Defined Benefit Plans	51	79
Lump Sum Retirement and Voluntary Severance	300	285
Total After-Employment Benefit Liability	1,695	3,091
Accrued Annual Leave	366	354
Environmental Liability	146	156
Capital Lease Liability	98	89
Contingent Liability	10	30
Other Liabilities	79	71
Total Liabilities Not Covered By Budgetary Resources	3,579	5,133
Total Liabilities Covered By Budgetary Resources	21,504	21,262
Total Liabilities	\$ 25,083	\$ 26,395

## 10 AFTER-EMPLOYMENT BENEFIT LIABILITY

The Department of State provides after-employment benefits to both Foreign Service Officers (FSOs) and Foreign Service Nationals (FSNs). FSOs participate in the Foreign Service Retirement and Disability pension plans. FSN employees participate in a variety of plans established by the Department in each country based upon prevailing compensation practices in the host country. The table below summarizes the liability associated with these plans (*dollars in millions*).

For the Year Ended September 30,	2014	2013
Foreign Service Officer		
Foreign Service Retirement and Disability Fund	\$ 19,091	\$ 20,067
Foreign Service Nationals		
Defined Contributions Fund	147	135
Defined Benefit Plans	51	79
Lump Sum Retirement and Voluntary Severance	300	285
Total FSN	498	499
Total After-Employment Benefit Liability	\$ 19,589	\$ 20,566

Details for these plans are presented as follows.

## FOREIGN SERVICE RETIREMENT AND DISABILITY FUND

The FSRDF finances the operations of the FSRDS and the FSPS. The FSRDS and the FSPS are defined-benefit, single-employer plans. FSRDS was originally established in 1924; FSPS in 1986. The FSRDS is a single-benefit retirement plan. Retirees receive a monthly annuity from FSRDS for the rest of their lives. FSPS provides benefits from three sources: a basic benefit (annuity) from FSPS, Social Security, and the Thrift Savings Plan.

The Department's financial statements present the Pension Actuarial Liability of the Foreign Service Retirement and Disability Program (the "Plan") as the actuarial present value of projected plan benefits, as required by the SFFAS No. 33, *Pensions, Other Retirement Benefits, and other Post Employment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. The Pension Actuarial Liability represents the future periodic payments provided for current employee and retired Plan

participants, less the future employee and employing Federal agency contributions, stated in current dollars.

Future periodic payments include benefits expected to be paid to (1) retired or terminated employees or their beneficiaries; (2) beneficiaries of employees who have died; and (3) present employees or their beneficiaries, including refunds of employee contributions as specified by Plan provisions. Total projected service is used to determine eligibility for retirement benefits. The value of voluntary, involuntary, and deferred retirement benefits is based on projected service and assumed salary increases. The value of benefits for disabled employees or survivors of employees is determined by multiplying the benefit the employee or survivor would receive on the date of disability or death, by a ratio of service at the valuation date to projected service at the time of disability or death.

The Pension Actuarial Liability is calculated by applying actuarial assumptions to adjust the projected plan benefits to reflect the discounted time value of money and the probability of payment (by means of decrements such as death, disability, withdrawal or retirement) between the valuation date and the expected date of payment. The Plan uses the aggregate entry age normal actuarial cost method, whereby the present value of projected benefits for each employee is allocated on a level basis (such as a constant percentage of salary) over the employee's service between entry age and assumed exit age. The portion of the present value allocated to each year is referred to as the normal cost.

The table below presents the normal costs for 2014 and 2013.

Normal Cost:	2014	2013
FSRDS	35.14%	38.85%
FSPS	25.07%	32.52%

As discussed in Note 1 sections *Foreign Service Retirement and Disability Fund* and *Changes in Accounting Estimate* there was a significant actuarial gain resulting from assumption changes determined appropriate by an experience study performed by actuaries retained by the Department. The *Foreign Service Retirement Plans Actuarial Experience Study 2008 – 2013* describes extensive assumption changes, both economic and demographic. The economic assumption change related to merit salary growth experience. The merit salary increase is the portion of the overall annual pay increase that is over and above the annual general salary and locality pay increases, i.e., the salary increase derived from career longevity and promotions.

Demographic assumptions include the set of rates that predict certain events occurring to a group of employees or annuitants. Events of significance to a retirement system are those that result in a commencement or termination of a benefit payment. The events affecting active employees include reasons for leaving the service such as retirement, becoming disabled, terminating service, or death. The events affecting annuitants include, first and foremost, mortality.

The demographic assumption changes included revision of assumptions applicable to active employees to predict the likelihood of their future separation from service, including their probability of withdrawal, retirement, or becoming disabled. Also warranted was a change to adopt gender specific mortality rates for active employees as well as disabled, survivor, and child survivor annuitants. The actuarial gain of \$1,343 million resulting from these demographic assumption changes can be seen in the following table.

The assumption changes for interest rate, \$193 million loss; and inflation, \$237 million gain, are not from the experience study. These changes arise in connection with each annual valuation and follow the guidelines of SFFAS No. 33.

Actuarial assumptions are based on the presumption that the Plan will continue. If the Plan terminates, different actuarial assumptions and other factors might be applicable for determining the actuarial present value of accumulated plan benefits. The following table presents the calculation of the combined FSRDS and FSPS Pension Actuarial Liability and the assumptions used in computing it for the year ended September 30, 2014 and 2013 (*dollars in millions*).

For the Year Ended September 30,	2014	2013
Pension Actuarial Liability, Beginning of Year	\$ 20,067	\$ 19,434
Pension Expense:		
Normal Cost	554	528
Interest on Pension Liability	845	857
Actuarial (Gains) or Losses:		
From Experience	(69)	(188)
From Assumption Changes		
Interest Rate	193	500
Other	(237)	(168)
Experience Study	(1,343)	—
Prior Year Service Costs	—	—
Other	1	(2)
Total Pension Expense	(56)	1,527
Less Payments to Beneficiaries	920	894
Pension Actuarial Liability, End of Year	19,091	20,067
Less: Net Assets Available for Benefits	17,894	17,475
Pension Actuarial Liability - Unfunded	\$ 1,197	\$ 2,592
Actuarial Assumptions:		
Rate of Return on Investments	4.17%	4.25%
Rate of Inflation	2.31%	2.43%
Salary Increase	2.56%	2.68%

Net Assets Available for Benefits at September 30, 2014 and 2013, consist of the following (*dollars in millions*).

At September 30,	2014	2013
Fund Balance with Treasury	\$ —	\$ —
Accounts and Interest Receivable	178	185
Investments in U.S. Government Securities	17,792	17,364
Total Assets	17,970	17,549
Less: Liabilities Other Than Actuarial	76	74
Net Assets Available for Benefits	\$ 17,894	\$ 17,475

## FOREIGN SERVICE NATIONALS' AFTER-EMPLOYMENT BENEFIT LIABILITIES

The Department of State operates overseas in over 180 countries and employs a significant number of local nationals, currently over 47,000, known as Foreign Service Nationals (FSNs).

FSNs do not qualify for any Federal civilian benefits (and therefore cannot participate) in any of the Federal civilian pension systems (e.g., Civil Service Retirement System (CSRS), FSRDS, Thrift Savings Plan (TSP), etc.). By statute, the Department is required to establish compensation plans for FSNs in its employ in foreign countries. The plans are based upon prevailing wage and compensation practices in the locality of employment, unless the Department makes a public interest determination to do otherwise. In general, the Department follows host country (i.e., local) practices and conventions in compensating FSNs. The end result of this is that compensation for FSNs is often not in accord with what would otherwise be offered or required by statute and regulations for Federal civilian employees.

In each country, FSN after-employment benefits are included in the Post's Local Compensation Plan. Depending on the local practice, the Department offers defined benefit plans, defined contribution plans, and retirement and voluntary severance lump sum payment plans. These plans are typically in addition to or in lieu of participating in the host country's LSSS. These benefits form an important part of the Department's total compensation and benefits program that is designed to attract and retain highly skilled and talented FSN employees.

### FSN Defined Contributions Fund (FSN DCF)

The Department's FSN Defined Contributions Fund provides after-employment benefits for FSN employees in countries where the Department has made a public interest determination to discontinue participation in the LSSS. Title 22, Foreign Relations and Intercourse, Section 3968, Local Compensation Plans, provides the authority to the Department to establish such benefits and identifies as

part of a total compensation plan for these employees. The Department contributes 12 percent of each participant's base salary to the Fund. Participants are not allowed to make contributions to the Fund. The amount of after-employment benefit received by the employee is determined by the amount of the contributions made by the Department along with investment returns and administrative fees. The Department's obligation is determined by the contributions for the period, and no actuarial assumptions are required to measure the obligation or the expense. The FSN DCF is administered by a third party who invests contributions in U.S. Treasury securities on behalf of the Department. Payroll contributions are sent to the third party administrator, while separation benefits are processed by the Department upon receipt of funds from the third party. As of September 30, 2014, approximately 12,000 FSNs in 30 countries participate in the FSN DCF.

The Department records expense for contributions to the FSN DCF when the employee renders service to the Department, coinciding with the cash contributions to the FSN DCF. Total contributions by the Department in 2014 and 2013 were \$22.4 million and \$21.5 million, respectively. Total liability reported for the FSN DCF is \$147 million and \$135 million as of September 30, 2014 and 2013, respectively.

### Local Defined Contribution Plans

In 50 countries, the Department has implemented various local arrangements, primarily with third party providers, for defined contribution plans for the benefit of FSNs. Total contributions to these plans by the Department in 2014 and 2013 were \$22.7 million and \$20.8 million, respectively.

### Defined Benefit Plans

In 12 countries, involving over 3,400 FSNs, the Department has implemented various arrangements for defined benefit pension plans for the benefit of FSNs. Some of these plans supplement the host country's equivalent to U.S. social security, others do not. While none of these supplemental plans is mandated by the host country, some are substitutes for optional tiers of a host country's social

security system. Such arrangements include (but are not limited to) conventional defined benefit plans with assets held in the name of trustees of the plan who engage plan administrators, investment advisors and actuaries, and plans offered by insurance companies at predetermined rates or with annual adjustments to premiums. The Department deposits funds under various fiduciary-type arrangements, purchases annuities under group insurance contracts or provides reserves to these plans. Benefits under the defined benefit plans are typically based either on years of service and/or the employee's compensation (generally during a fixed number of years immediately before retirement). The range of assumptions that are used for the defined benefit plans reflect the different economic and regulatory environments within the various countries.

As discussed in Note 1, the Department accounts for these plans under guidance contained in International Accounting Standards (IAS) No. 19, *Employee Benefits*. In accordance with IAS No. 19, the Department reported the net defined benefit liability of \$51 million and \$79 million as of September 30, 2014 and 2013, respectively. The change was a decrease of \$28 million and \$27 million in 2014 and 2013, respectively.

The material FSN defined benefit plans include plans in Germany and the United Kingdom (UK) which represent 80 percent of total assets, 73 percent of total projected benefit obligations, and 72 percent of the net defined benefit liability as of September 30, 2014. The Germany Plan's most recent evaluation report, dated September 15, 2014, is as of July 1, 2014. The UK Plan's most recent evaluation, dated October 22, 2014, is as of April 6, 2014. For the Germany Plan, the change in the net defined benefit liability was a decrease of \$7 million in 2014 and \$39.5 million in 2013, while for the UK Plan, the change was a decrease of \$22 million in 2014 and \$11 million in 2013. For 2014, the decreases in net defined benefit liability were primarily due to a combination of returns on plan assets, gains on changes in actuarial assumptions for the UK plan, and one-time employer deficit contributions of \$3.3 million for the Germany plan. The decrease in 2013 was primarily due to a one-time employer deficit contribution of \$39.7 million for the Germany Plan.

The tables below show the changes in the projected benefit obligation and plan assets during 2014 and 2013 for the Germany and UK plans (*dollars in millions*).

Change in Benefit Obligations:	2014	2013
Benefit obligation beginning of year	\$ 327	\$ 311
Service Cost	2	3
Interest Cost	6	12
Actuarial (gain) loss on assumption change	—	—
Other actuarial (gain) loss	—	—
Value of New Benefit	—	—
Other	(13)	1
Benefit obligation end of year	\$ 322	\$ 327

Change in Plan Assets:	2014	2013
Fair value of plan assets beginning of year	\$ 260	\$ 194
Return on plan assets	18	19
Contributions less Benefits Paid	9	44
Other	(2)	3
Fair value of plan assets end of year	285	260
Net Defined Benefit Liability	\$ 37	\$ 67

The table below shows the allocation of the plan assets by category during 2014 and 2013 for the German and UK plans.

	2014	2013
Insurance Policies	41%	40%
Equity Securities	27%	26%
Money Market and Cash	6%	11%
Debt Securities	26%	22%
Mixed (Debt & Equity Securities)	—	—
Property	—	1%
Total	100%	100%

The principal actuarial assumptions used for 2014 and 2013 for the Germany and UK plans are presented below:

Actuarial Assumptions:	2014	2013
Discount Rate	3.50 – 6.40%	4.00 – 5.90%
Salary Increase Rate	2.25 – 4.80%	2.25 – 4.70%
Pension Increase Rate	2.00 – 3.50%	2.00 – 3.40%

## Retirement and Voluntary Severance Lump Sum Payments

In 73 countries, FSN employees are provided a lump-sum separation payment when they resign, retire, or otherwise separate through no fault of their own. The amount of the payment is generally based on length of service, rate of pay at the time of separation, and the type of separation. As of September 30, 2014, approximately 24,000 FSNs participate in such plans.

The cost method used for the valuation of the liabilities associated with these plans is the Projected Unit Credit actuarial cost method. The participant's benefit is first determined using both their projected service and salary at the retirement date. The projected benefit is then multiplied by the ratio of current service to projected service at retirement in order to determine an allocated benefit. The Projected Benefit Obligation (PBO) for the entire plan is calculated as the sum of the individual PBO amounts for each active member. Further, this calculation requires certain actuarial assumptions be made, such as voluntary withdraws, assumed retirement age, death and disability, as well as economic assumptions. For economic assumptions, available market data was scarce for many of the countries where eligible posts are located. Due to the lack of creditable global market data, an approach consistent with that used for the September 30, 2014 FSRDF valuations under SFFAS No. 33 was adopted. Using this approach, the economic assumptions used for the Retirement and Voluntary Severance Lump Sum Payment liability as of September 30, 2014 and September 30, 2013 are:

	2014	2013
Discount Rate	3.68%	3.66%
Rate of inflation	2.31%	2.43%
Salary Increase	4.18%	3.31%

Based upon the projection, the total liability reported for the Retirement and Voluntary Severance Lump Sum Payment is \$300 million and \$285 million as of September 30, 2014 and 2013, respectively, as shown below (*dollars in millions*):

At September 30,	2014	2013
Retirement	\$ 94	\$ 89
Voluntary Severance	206	196
Total	\$ 300	\$ 285

## 11 INTERNATIONAL ORGANIZATION LIABILITIES

The Department's, Bureau of International Organizations (IO) is responsible for the administration, development, and implementation of the United States' policies in the United Nation (UN), international organizations, and UN peace-keeping operations. The United States contributes either to voluntary funds or an assessed share of the budgets and expenses of these organizations and activities. These missions are supported through Congressional appropriation to the Department's Contributions to International Organizations (CIO), Contributions for International Peacekeeping Activities (CIPA), and International Organizations and Programs Accounts (IO&P).

A liability is established for assessments received and unpaid and for pledges made and accepted by an international organization. Congress in the past has mandated withholding of dues payments because of policy restrictions or caps on the percentage of the organization's operating costs financed by the United States. Without authorization from Congress, the Department cannot pay certain arrears in dues. The amounts assessed that will likely not be authorized to be paid do not appear as liabilities on the Balance Sheet of the Department.

Amounts presented in this Note represent amounts that are paid through the CIO, CIPA, and IO&P Accounts and administered by IO. Payables to international organizations by the Department that are funded through other appropriations are included in Accounts Payable to the extent such payables exist at September 30, 2014 and 2013.

Further information about the Department's mission to the UN is at [www.usunnewyork.usmission.gov](http://www.usunnewyork.usmission.gov). Details of the IO Liabilities follow (*dollars in millions*):

As of September 30,	2014	2013
Regular Membership Assessments Payable to UN	\$ 799	\$ 795
Dues Payable to UN Peacekeeping Missions	349	631
International Organization Liabilities	1,306	1,197
	2,454	2,623
Less Amounts not Authorized to be Paid	713	714
International Organization Liabilities	\$ 1,741	\$ 1,909
Funded Amounts	\$ 605	\$ 648
Unfunded Amounts	1,136	1,261
Total International Organization Liabilities	\$ 1,741	\$ 1,909

## 12 LEASES

The Department is committed to over 9,600 leases, which cover office and functional properties, and residential units at diplomatic missions overseas. The majority of these leases are short-term operating leases. In most cases, management expects that the leases will be renewed or replaced by other leases. Personnel from other U.S. Government agencies occupy some of the leased facilities (both residential and non-residential). These agencies reimburse the Department for the use of the properties. Reimbursements are received for approximately \$92.3 million of the lease costs.

### CAPITAL LEASES

The Department has various leases for overseas real property that meet the criteria as a capital lease in accordance with SFFAS No. 6, *Accounting for Property, Plant, and Equipment*. Assets that meet the definition of a capital lease and their related lease liability are initially recorded at the present value of the future minimum lease payments or fair market value, whichever is lower. In general, capital leases are depreciated over the estimated useful life or lease terms depending upon which capitalization criteria the capital leases meet.

at inception. The related liability is amortized over the term of the lease, which can result in a different value in the asset versus the liability.

The following is a summary of Net Assets under Capital Lease and Future Minimum Lease payments as of September 30, 2014 and 2013 (*dollars in millions*). Lease liabilities are not covered by budgetary resources.

	2014	2013
<b>Net Assets Under Capital Leases:</b>		
Buildings	\$ 110	\$ 108
Accumulated Depreciation	(33)	(39)
<b>Net Assets under Capital Leases</b>	<b>\$ 77</b>	<b>\$ 69</b>

Future Minimum Lease Payments:

	2014
Fiscal Year	Lease Payments
2015	\$ 12
2016	15
2017	13
2018	12
2019	13
2020 and thereafter	174
<b>Total Minimum Lease Payments</b>	<b>239</b>
Less: Amount Representing Interest	(141)
<b>Liabilities under Capital Leases</b>	<b>\$ 98</b>

	2013
Fiscal Year	Lease Payments
2014	\$ 11
2015	11
2016	13
2017	11
2018	10
2019 and thereafter	160
<b>Total Minimum Lease Payments</b>	<b>216</b>
Less: Amount Representing Interest	(127)
<b>Liabilities under Capital Leases</b>	<b>\$ 89</b>

## OPERATING LEASES

The Department leases real property in overseas locations under operating leases. These leases expire in various years. Minimum future rental payments under operating leases have remaining terms in excess of one year as of September 30, 2014 and 2013 for each of the next 5 years and in aggregate are as follows (*dollars in millions*):

Year Ended September 30, 2014	Operating Lease Amounts
2015	\$ 422
2016	309
2017	189
2018	126
2019	87
2020 and thereafter	259
<b>Total Minimum Future Lease Payments</b>	<b>\$ 1,392</b>

Year Ended September 30, 2013	Operating Lease Amounts
2014	\$ 413
2015	301
2016	201
2017	115
2018	77
2019 and thereafter	232
<b>Total Minimum Future Lease Payments</b>	<b>\$ 1,339</b>

## 13 CONTINGENCIES AND COMMITMENTS

### CONTINGENCIES

The Department is a party in various material legal matters (litigation, claims, assessments, including pending or threatened litigation, unasserted claims, and claims that may derive from treaties or international agreements) brought against it. We periodically review these matters pending against us. As a result of these reviews, we classify and adjust our contingent liability when we think it is probable that there will be an unfavorable outcome and when a reasonable estimate of the amount can be made.

Additionally, as part of our continuing evaluation of estimates required in the preparation of our financial statements, we

evaluated the materiality of cases determined to have a reasonably possible chance of an adverse outcome. These cases involve contract disputes, claims related to embassy construction, Equal Employment Opportunity Commission claims, and international claims made against the United States being litigated by the Department. As a result of these reviews, the Department believes these claims could result in potential estimable losses of \$7 to \$72 million if the outcomes were adverse to the Department; these amounts are considered by management to be immaterial to our financial statements taken as a whole.

Certain legal matters to which the Department is a party are administered and, in some instances, litigated and paid by other U.S. Government agencies. Generally, amounts to be paid under any decision, settlement, or award pertaining to these legal matters are funded from the Judgment Fund.

None of the amounts paid under the Judgment Fund on behalf of the Department in 2014 and 2013 had a material effect on the financial position or results of operations of the Department.

As a part of our continuing evaluation of estimates required for the preparation of our financial statements, we recognize settlements of claims and lawsuits and revised other estimates in our contingent liabilities. Management and the Legal Adviser believe we have made adequate provision for the amounts that may become due under the suits, claims, and proceedings we have discussed here.

## COMMITMENTS

In addition to the future lease commitments discussed in Note 12, *Leases*, the Department is committed under obligations for goods and services which have been ordered but not yet received at fiscal year end. These are termed undelivered orders – see Note 16, *Statement of Budgetary Resources*.

**Rewards Programs:** The Department has operated three rewards programs for information that have been critical to

combating international terrorism, narcotics trafficking, and war crimes for over 20 years. In 2013, the rewards program expanded to include the Transnational Organized Crime Rewards Program. This fourth program offers rewards targeting significant transnational organized crime figures not included under the existing reward authority.

The Rewards for Justice Program offers rewards for information leading to the arrest or conviction in any country of persons responsible for acts of international terrorism against U.S. persons or property, or to the location of key terrorist leaders. See further details at [www.rewardsforjustice.net](http://www.rewardsforjustice.net). The Narcotics Rewards Program has the authority under 22 U.S.C. 2708 to offer rewards for information leading to the arrest or conviction in any country of persons committing major foreign violations of U.S. narcotics laws or the killing or kidnapping of U.S. narcotics law enforcement officers or their family members. The War Crimes Rewards Program offers rewards for information leading to the arrest, transfer, or conviction of persons indicted by a judge of the International Criminal Tribunal for the former Yugoslavia, the International Criminal Tribunal for Rwanda, or the Special Court of Sierra Leone for serious violations of international humanitarian law. The Transnational Organized Crime Rewards Program offers rewards for information leading to the arrest or conviction of significant members of transnational criminal organizations involved in activities that threaten national security, such as human trafficking, and trafficking in arms or other illicit goods.

Pending reward offers under the four programs total \$850 million. Under the programs, we have paid out \$220 million since 2003. Reward payments are funded from Diplomatic and Consular Programs prior year expired, unobligated balances using available transfer authorities as necessary. In the opinion of management and legal counsel, no further contingent liability is required because probable payments do not materially affect the financial position or operations of the Department.



## 14 FUNDS FROM DEDICATED COLLECTIONS

Funds from Dedicated Collections are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities or purposes, and must be accounted for separately from

the Government's general revenues. There are no intra-departmental transactions between the various funds from dedicated collections.

The Department administers nine funds from dedicated collections as listed below.

Treasury Fund Symbol	Description	Statute
19X5515	H-1B and L Fraud Prevention and Detection	118 Stat. 3357
19X8166	American Studies Endowment Fund	108 Stat. 425
19X8167	Trust Funds	22 USC 1479
19X8271	Israeli Arab Scholarship Programs	105 Stat. 696, 697
19X8272	Eastern Europe Student Exchange Endowment Fund	105 Stat. 699
19X8813	Center for Middle Eastern-Western Dialogue Trust Fund	118 Stat. 84
19X8821	Unconditional Gift Fund	22 USC 809, 1046
19X8822	Conditional Gift Fund	22 USC 809, 1046
95X8276	Eisenhower Exchange Fellowship Program Trust Fund	Public Law No. 101-454

The table below displays the dedicated collection amounts as of September 30, 2014 and 2013 (*dollars in millions*).

	2014	2013
<b>Balance Sheet as of September 30</b>		
<b>Assets:</b>		
Fund Balances with Treasury	\$ 176	\$ 145
Investments	44	44
Other Assets	97	97
<b>Total Assets</b>	<b>\$ 317</b>	<b>\$ 286</b>
<b>Net Position:</b>		
Cumulative Results of Operations	\$ 317	\$ 286
<b>Total Liabilities and Net Position</b>	<b>\$ 317</b>	<b>\$ 286</b>
<b>Statement of Net Cost for the Year Ended September 30</b>		
Gross Program Costs	\$ 46	\$ 59
Less: Earned Revenues	—	—
Net Program Costs	46	59
<b>Net Cost of Operations</b>	<b>\$ 46</b>	<b>\$ 59</b>
<b>Statement of Changes in Net Position for the Year Ended September 30</b>		
Net Position Beginning of Period	\$ 286	\$ 282
Budgetary Financing Sources	77	63
Net Cost of Operations	(46)	(59)
Change in Net Position	31	4
<b>Net Position End of Period</b>	<b>\$ 317</b>	<b>\$ 286</b>

## 15 STATEMENT OF NET COST

Commencing this year, the Consolidated Statement of Net Cost is presented by major program instead of strategic goal. The Department believes this is more consistent and transparent with its Congressional Budget submissions. The net cost of operations is the gross (i.e., total) cost incurred by the Department, less any exchange (i.e., earned) revenue. In the Financial Summary and Highlights section of the Management Discussion and Analysis, a table is presented to show the relationship between the Department's strategic goals described in the Strategic Plan and the major

programs used to present the Consolidated Statement of Net Cost and related disclosures.

The Consolidating Schedule of Net Cost categorizes costs and revenues by major program and responsibility segment. A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to top management. For the Department, a Bureau (e.g., Bureau of African Affairs) is considered a responsibility segment. For presentation purposes, Bureaus have been

### CONSOLIDATING SCHEDULE OF NET COST

For the Year Ended September 30, 2014

(dollars in millions)

MAJOR PROGRAM	Under Secretary for								Intra- Departmental Eliminations	Total
	Arms Control, Int'l Security	Economic Growth, Energy and Environment	Civilian Security, Democracy and Human Rights	Political Affairs	Public Diplomacy and Public Affairs	Management- Consular Affairs				
<b>Peace and Security</b>										
Total Cost	\$ 603	\$ —	\$ 945	\$ 468	\$ —	\$ —	\$ —	\$ 1	\$ 2,017	
Earned Revenue	(28)	—	(38)	(26)	—	—	—	(1)	(93)	
Net Program Costs	575	—	907	442	—	—	—	—	1,924	
<b>Democracy, Human Rights and Governance</b>										
Total Cost	—	—	659	26	—	—	—	1	686	
Earned Revenue	—	—	(25)	—	—	—	—	(1)	(26)	
Net Program Costs	—	—	634	26	—	—	—	—	660	
<b>Health, Education and Social Services</b>										
Total Cost	—	—	215	8,155	—	—	—	—	8,370	
Earned Revenue	—	—	—	(1)	—	—	—	—	(1)	
Net Program Costs	—	—	215	8,154	—	—	—	—	8,369	
<b>Humanitarian, Economic Development and Environment</b>										
Total Cost	—	—	3,013	156	—	—	—	(1)	3,168	
Earned Revenue	—	—	(1)	—	—	—	—	1	—	
Net Program Costs	—	—	3,012	156	—	—	—	—	3,168	
<b>International Organizations and Commissions</b>										
Total Cost	—	36	—	3,141	—	—	—	—	3,177	
Earned Revenue	—	—	—	(8)	—	—	—	—	(8)	
Net Program Costs	—	36	—	3,133	—	—	—	—	3,169	
<b>Diplomatic and Consular Programs</b>										
Total Cost	209	81	89	8,856	286	5,954	(2,090)	13,385		
Earned Revenue	(72)	(1)	—	(960)	(17)	(6,029)	1,952	(5,127)		
Net Program Costs	137	80	89	7,896	269	(75)	(138)	8,258		
<b>Administration of Foreign Affairs</b>										
Total Cost	—	—	391	4,512	1,772	25	(4,125)	2,575		
Earned Revenue	—	(27)	(79)	(3,292)	(2,240)	(196)	4,106	(1,728)		
Net Program Costs Before Assumption Changes	—	(27)	312	1,220	(468)	(171)	(19)	847		
<b>Actuarial Gain on Pension</b>										
Assumption Changes	—	—	(81)	(934)	(367)	(5)	—	(1,387)		
Net Program Costs	—	(27)	231	286	(835)	(176)	(19)	(540)		
<b>Total Cost</b>	812	117	5,231	24,380	1,691	5,974	(6,214)	31,991		
<b>Total Revenue</b>	(100)	(28)	(143)	(4,287)	(2,257)	(6,225)	6,057	(6,983)		
<b>Total Net Cost</b>	\$ 712	\$ 89	\$ 5,088	\$ 20,093	\$ (566)	\$ (251)	\$ (157)	\$ 25,008		

summarized and reported at the Under Secretary level (e.g., Under Secretary for Political Affairs).

The presentation of program results is based on the Department's major programs related to the major goals established pursuant to the Government Performance and Results Act of 1993. The Department's strategic goals and strategic priorities were updated in 2014 and are defined in Management's Discussion and Analysis section of this report.

The Administration of Foreign Affairs program relates to high-level executive direction (e.g., Office of the Secretary, Office of the Legal Adviser), general management, and certain administrative support costs. For the years ended September 30, 2014 and 2013, these consist of costs and earned revenue summarized below (*dollars in millions*):

Program	2014			2013		
	Total Prior to Eliminations	Intra-Departmental Eliminations	Total	Total Prior to Eliminations	Intra-Departmental Eliminations	Total
<b>Costs:</b>						
Administration of Foreign Affairs - Other	\$ 1,453	\$ 71	\$ 1,382	\$ 1,542	\$ 119	\$ 1,423
FSRDF	1,331	614	717	1,168	608	560
ICASS	2,747	2,313	434	2,546	1,848	698
Working Capital Fund	1,169	1,127	42	1,203	1,174	29
<b>Total Costs</b>	<b>6,700</b>	<b>4,125</b>	<b>2,575</b>	<b>6,459</b>	<b>3,749</b>	<b>2,710</b>
<b>Less Earned Revenue:</b>						
Administration of Foreign Affairs - Other	76	68	8	124	116	8
FSRDF	1,339	614	725	1,359	608	751
ICASS	3,167	2,297	870	2,644	1,834	810
Working Capital Fund	1,252	1,127	125	1,284	1,174	110
<b>Total Earned Revenue</b>	<b>5,834</b>	<b>4,106</b>	<b>1,728</b>	<b>5,411</b>	<b>3,732</b>	<b>1,679</b>
<b>Actuarial (Gain)/Loss on Pension Assumption Changes</b>	<b>(1,387)</b>	<b>—</b>	<b>(1,387)</b>	<b>360</b>	<b>—</b>	<b>360</b>
<b>Total Net Cost for Administration of Foreign Affairs</b>	<b>\$ (521)</b>	<b>\$ 19</b>	<b>\$ (540)</b>	<b>\$ 1,408</b>	<b>\$ 17</b>	<b>\$ 1,391</b>

Diplomatic and Consular Programs support essential diplomatic personnel and programs worldwide. It also supports the infrastructure for U.S. Government agencies and employees at

diplomatic and consular posts around the globe. For the years ended September 30, 2014 and 2013, these consist of costs and earned revenue summarized below (*dollars in millions*):

Program	2014			2013		
	Total Prior to Eliminations	Intra-Departmental Eliminations	Total	Total Prior to Eliminations	Intra-Departmental Eliminations	Total
<b>Costs:</b>						
Diplomatic Programs and Other	\$ 5,345	\$ 1,776	\$ 3,569	\$ 5,181	\$ 1,401	\$ 3,780
Overseas Building Operations	1,528	208	1,320	1,471	386	1,085
Central Salaries and Benefits	4,017	—	4,017	3,837	—	3,837
Diplomatic Security	2,825	105	2,720	2,307	66	2,241
Consular Affairs	1,760	1	1,759	1,999	142	1,857
<b>Total Costs</b>	<b>15,475</b>	<b>2,090</b>	<b>13,385</b>	<b>14,795</b>	<b>1,995</b>	<b>12,800</b>
<b>Less Earned Revenue:</b>						
Diplomatic Programs and Other	2,216	1,642	574	2,090	1,285	805
Overseas Building Operations	1,000	203	797	1,456	382	1,074
Diplomatic Security	275	105	170	209	66	143
Consular Affairs	3,588	2	3,586	3,408	142	3,266
<b>Total Earned Revenue</b>	<b>7,079</b>	<b>1,952</b>	<b>5,127</b>	<b>7,163</b>	<b>1,875</b>	<b>5,288</b>
<b>Total Net Cost for Diplomatic and Consular Programs</b>	<b>\$ 8,396</b>	<b>\$ 138</b>	<b>\$ 8,258</b>	<b>\$ 7,632</b>	<b>\$ 120</b>	<b>\$ 7,512</b>



During a lunch discussion at the Global Chiefs of Mission Conference, U.S. Secretary of State John Kerry chats with U.S. Ambassador to the Czech Republic Norman Eisen, at the U.S. Department of State in Washington, D.C., March 11, 2014.

Department of State

Since the costs incurred by the Under Secretary for Management and the Secretariat are primarily support costs, these costs were distributed to the other Under Secretaries to show the full costs under the responsibility segments that have direct control over the Department's programs. One exception within the Under Secretary for Management is the Bureau of Consular Affairs, which is responsible for the Achieving Consular Excellence program. As a result, these costs were not allocated and continue to be reported as the Under Secretary for Management.

The Under Secretary for Management/Secretariat costs (except for the Bureau of Consular Affairs) were allocated to the other Department responsibility segments based on the percentage of total costs by organization for each program. The allocation of these costs to the other Under Secretaries and to the Bureau of Consular Affairs in 2014 and 2013 was as follows (*dollars in millions*):

Under Secretary	2014	2013
Political Affairs	\$ 16,236	\$ 15,277
Management (Consular Affairs)	4,205	3,679
Public Diplomacy and Public Affairs	977	1,394
Arms Control, International Security Affairs	222	190
Civilian Security, Democracy, and Human Rights	464	1,233
Economic Growth, Energy and Environment	57	48
<b>Total</b>	<b>\$ 22,161</b>	<b>\$ 21,821</b>

**Inter-Entity Costs and Imputed Financing:** Full cost includes the costs of goods or services received from other Federal entities (referred to as inter-entity costs) regardless if the Department reimburses that entity. To measure the full cost of activities, SFFAS No. 4, Managerial Cost Accounting, requires that total costs of programs include costs that are paid by other U.S. Government entities, if material. As provided by SFFAS No. 4, OMB issued a Memorandum in April 1998, entitled "Technical Guidance on the Implementation of Managerial Cost Accounting Standards for the Government." In that Memorandum, OMB established that reporting entities should recognize inter-entity costs for (1) employees' pension benefits; (2) health insurance, life insurance, and other benefits for retired employees; (3) other post-retirement benefits for retired, terminated and inactive employees, including severance payments, training and counseling, continued health care, and unemployment and workers' compensation under the Federal Employees' Compensation Act; and (4) payments made in litigation proceedings.

The Department recognizes an imputed financing source on the Statement of Changes in Net Position for the value of inter-entity costs paid by other U.S. Government entities. This consists of all inter-entity amounts as reported below, except for the Federal Workers' Compensation Benefits (FWCB). For FWCB, the Department recognizes its share of the change in the actuarial liability for FWCB as determined by the Department of Labor (DOL). The Department reimburses DOL for FWCB paid to current and former Department employees.

The following inter-entity costs and imputed financing sources were recognized in the Statement of Net Cost and Statement of Changes in Net Position, for the years ended September 30, 2014 and 2013 (*dollars in millions*):

Inter-Entity Cost	2014	2013
Other Post-Employment Benefits:		
Civil Service Retirement Program	\$ 46	\$ 39
Federal Employees Health Benefits Program	114	116
Federal Employees Group Life Insurance Program	1	1
Litigation funded by Treasury Judgment Fund	—	—
<b>Subtotal – Imputed Financing Source</b>	<b>161</b>	<b>156</b>
Future Workers' Compensation Benefits	19	19
<b>Total Inter-Entity Costs</b>	<b>\$ 180</b>	<b>\$ 175</b>

**Intra-departmental Eliminations:** Intra-departmental eliminations of cost and revenue were recorded against the program that provided the service. Therefore, the full program cost was reported by leaving the reporting of cost with the program that received the service.

classified as intragovernmental. If the Federal entity sells them to the public, the earned revenues are classified as with the public. For the years ended September 30, 2014 and 2013, intragovernmental costs and earned revenues were as follows (*dollars in millions*):

	2014	2013
Gross Cost:		
Intragovernmental	\$ 3,071	\$ 2,753
With the Public	28,920	29,342
<b>Total Gross Cost</b>	<b>31,991</b>	<b>32,095</b>
Less Earned Revenue:		
Intragovernmental	3,232	2,792
With the Public	3,751	4,236
<b>Total Earned Revenue</b>	<b>6,983</b>	<b>7,028</b>
<b>Total Net Cost of Operations</b>	<b>\$25,008</b>	<b>\$25,067</b>

## INTRAGOVERNMENTAL COSTS AND EARNED REVENUES

Intragovernmental costs and earned revenues are transactions between the Department and another reporting entity within the Federal Government. Costs and earned revenues with the public are transactions between the Department and a non-Federal entity. If a Federal entity purchases goods or services from another Federal entity, the related costs are

## EARNED REVENUES

Earned revenues occur when the Department provides goods or services to the public or another Federal entity. Earned revenues are reported regardless of whether the Department is permitted to retain all or part of the revenue. Specifically, the Department collects, but does not retain passport, visa, and certain other consular fees. Earned revenues for the years ended September 30, 2014 and 2013, consist of the following (*dollars in millions*):

Program	2014			2013		
	Total Prior to Eliminations	Intra-Departmental Eliminations	Total	Total Prior to Eliminations	Intra-Departmental Eliminations	Total
Consular Fees:						
Passport, Visa and Other Consular Fees	\$ 735	\$ —	\$ 735	\$ 676	\$ —	\$ 676
Machine Readable Visa	1,901	—	1,901	1,672	—	1,672
Expedited Passport	184	—	184	173	—	173
Passport, Visa and Other Surcharges	836	—	836	787	—	787
Fingerprint Processing, Diversity Lottery, and Affadavit of Support	21	—	21	20	—	20
<b>Subtotal – Consular Fees</b>	<b>3,677</b>	<b>—</b>	<b>3,677</b>	<b>3,328</b>	<b>—</b>	<b>3,328</b>
FSRDF	1,339	614	725	1,359	608	751
ICASS	3,167	2,297	870	2,644	1,834	810
Other Reimbursable Agreements	3,498	1,963	1,535	3,352	1,896	1,456
Working Capital Fund	1,252	1,127	125	1,284	1,174	110
Other	107	56	51	679	106	573
<b>Total</b>	<b>\$ 13,040</b>	<b>\$ 6,057</b>	<b>\$ 6,983</b>	<b>\$ 12,646</b>	<b>\$ 5,618</b>	<b>\$ 7,028</b>

## PRICING POLICIES

Generally, a Federal agency may not earn revenue from outside sources unless it obtains specific statutory authority. Accordingly, the pricing policy for any earned revenue depends on the revenue's nature, and the statutory authority under which the Department is allowed to earn and retain (or not retain) the revenue. Earned revenue that the Department is not authorized to retain is deposited into the Treasury's General Fund.

The FSRDF finances the operations of the FSRDS and the FSPS. The FSRDF receives revenue from employee/employer contributions, a U.S. Government contribution, and interest on investments. By law, FSRDS participants contribute 7.25 percent of their base salary, and each employing agency contributes 7.25 percent; FSPS participants contribute 1.35 percent of their base salary and each employing agency contributes 20.22 percent. Employing agencies report employee/employer contributions biweekly. Total employee/employer contributions for 2014 and 2013 were \$357 million and \$350 million, respectively.

The FSRDF also receives a U.S. Government contribution to finance (1) FSRDS benefits not funded by employee/employer contributions; (2) interest on FSRDS unfunded

liability; (3) FSRDS disbursements attributable to military service; and (4) FSPS supplemental liability payment. The U.S. Government contributions for 2014 and 2013 were \$334 million and \$333 million, respectively. FSRDF cash resources are invested in special non-marketable securities issued by the Treasury. Total interest earned on these investments for 2014 and 2013 were \$648 million and \$675 million, respectively.

Consular Fees are established primarily on a cost recovery basis and are determined by periodic cost studies. Certain fees, such as the machine readable Border Crossing Cards, are determined statutorily. Reimbursable Agreements with Federal agencies are established and billed on a cost-recovery basis. ICASS billings are computed on a cost recovery basis; billings are calculated to cover all operating, overhead, and replacement costs of capital assets, based on budget submissions, budget updates, and other factors. In addition to services covered under ICASS, the Department provides administrative support to other agencies overseas for which the Department does not charge. Areas of support primarily include buildings and facilities, diplomatic security (other than the local guard program), overseas employment, communications, diplomatic pouch, receptionist and selected information management activities. The Department receives direct appropriations to provide this support.

## 16 STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources reports information on how budgetary resources were made available and their status as of and for the years ended September 30, 2014 and 2013. Intra-departmental transactions have not been eliminated in the amounts presented.

The Budgetary Resources section presents the total budgetary resources available to the Department. For the years ended September 30, 2014 and 2013, the Department received approximately \$64.5 billion and \$60.6 billion in budgetary resources, respectively, primarily consisting of the following:

Source of Budgetary Resources (dollars in billions)	2014	2013
<b>Budget Authority:</b>		
Direct or related appropriations	\$ 29.4	\$ 30.5
Authority financed from Trust Funds	1.0	1.0
Spending authority from providing goods and services	11.1	10.4
Unobligated Balances – Beginning of Year	21.9	17.5
Other	1.1	1.2
<b>Total Budgetary Resources</b>	<b>\$ 64.5</b>	<b>\$ 60.6</b>

### Apportionment Categories of Obligations Incurred (dollars in millions)

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
<b>For the Fiscal Year Ended September 30, 2014</b>			
<b>Obligations Apportioned Under</b>			
Category A	\$ 4,045	\$ 3,673	\$ 7,718
Category B	26,661	6,628	33,289
Category A/B		839	839
Exempt from Apportionment	1,281		1,281
<b>Total</b>	<b>\$ 31,987</b>	<b>\$ 11,140</b>	<b>\$ 43,127</b>

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
<b>For the Fiscal Year Ended September 30, 2013</b>			
<b>Obligations Apportioned Under</b>			
Category A	\$ 3,917	\$ 3,220	\$ 7,137
Category B	23,034	6,456	29,490
Exempt from Apportionment	1,252	812	2,064
<b>Total</b>	<b>\$ 28,203</b>	<b>\$ 10,488</b>	<b>\$ 38,691</b>

Per OMB Circular A-11, Category A, *Preparation, Submission and Execution of the Budget*, revised, obligations represent resources apportioned for calendar quarters. Category B obligations represent resources apportioned for other time periods; for activities, projects, and objectives or for a combination, thereof. Certain 2013 amounts in Note 16 have been reclassified to conform to the 2014 presentation.

### STATUS OF UNDELIVERED ORDERS

Undelivered Orders (UDO) represents the amount of goods and/or services ordered, which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred.

The amount of budgetary resources obligated for UDO for all activities as of September 30, 2014 and 2013, was approximately \$23.1 billion and \$23.6 billion, respectively. This includes amounts of \$1.9 billion for September 30, 2014, and \$1.1 billion for September 30, 2013, pertaining to revolving funds, trust funds, and substantial commercial activities.

### PERMANENT INDEFINITE APPROPRIATIONS

A permanent indefinite appropriation is open-ended as to both its period of availability (amount of time the agency has to spend the funds) and its amount. The Department received permanent indefinite appropriations of \$174.8 million and \$174.5 million for 2014 and 2013, respectively. The permanent indefinite appropriation provides payments to the FSRDF to finance the interest on the unfunded pension liability for the year, Foreign Service Pension System, and disbursements attributable to liability from military service.

## RECONCILIATION OF THE STATEMENT OF BUDGETARY RESOURCES TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The reconciliation of the Statement of Budgetary Resources and the actual amounts reported in the Budget of the United States Government (Budget) as of September 30, 2013 is presented in the table below. Since these financial statements are published before the Budget, this reconciliation is

based on the FY 2013 Statement of Budgetary Resources because actual amounts for FY 2013 are in the most recently published Budget (i.e., FY 2015). The Budget with actual numbers for September 30, 2014 will be published in the FY 2016 Budget and available in early February 2015. The Department of State's Budget Appendix includes this information and is available on OMB's website (<http://www.whitehouse.gov/omb/budget>).

### For the Fiscal Year Ended September 30, 2013 (dollars in millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources (SBR)	\$ 60,564	\$ 38,691	\$ 452	\$ 27,222
Distributed Offsetting Receipts			(452)	452
Funds not Reported in the Budget:				
Expired Funds	(872)	—	—	—
International Assistance Program	(2,738)	(1,945)	—	(1,216)
Undelivered Orders Adjustment	(244)	—	—	—
Other and Rounding errors	(10)	22	—	(93)
Budget of the United States	\$ 56,700	\$ 36,768	\$ —	\$ 26,365

International Assistance Program, included in these financial statements, is reported separately in the Budget of the United States. Other differences represent financial statement adjustments, timing differences, and other immaterial differences between amounts reported in the Department SBR and the Budget of the United States.

## 17 CUSTODIAL ACTIVITY

The Department administers certain activities associated with the collection of non-exchange revenues, which are deposited and recorded directly to the General Fund of the Treasury. The Department does not retain the amounts collected. Accordingly, these amounts are not considered or reported as financial or budgetary resources for the Department. At the end of each fiscal year, the accounts are closed and the balances are brought to zero by Treasury. Specifically, the Department collects interest, penalties and handling fees on accounts receivable; fines, civil penalties and forfeitures; and other miscellaneous receipts. In 2014 and 2013, the Department collected \$59 million and \$45 million, respectively, in custodial revenues that were transferred to Treasury.

## 18 RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Budgetary accounting used to prepare the Statement of Budgetary Resources and proprietary accounting used to prepare the other principal financial statements are complementary, but both the types of information about assets, liabilities, net cost of operations and the timing of their recognition are different. The reconciliation of budgetary resources obligated during the current period to the net cost of operations explains the difference between the sources and uses of resources as reported in the budgetary reports and in the net cost of operations. The first section of the reconciliation below presents total resources used in the period to incur obligations. Generally, those resources are

appropriations, net of offsetting collections and receipts. The second section adjusts the resources. Some resources are used for items that will be reflected in future net cost. Some are used for assets that are reported on the Balance Sheet, not as net cost. The final section adds or subtracts from total resources those items reported in net cost that do not require or generate resources. As an example, the Department collects regular passport fees that are reported as revenue on the Statement of Net Cost. However, these fees are not shown as a resource because they are returned to Treasury and cannot be obligated or spent by the Department.

For the Year Ended September 30,

(dollars in millions)

### Resources Used to Finance Activities:

#### Budgetary Resources Obligated

	2014	2013
Obligations Incurred	\$ 43,127	\$ 38,691
Spending Authority from Offsetting Collections and Recoveries	(12,734)	(12,111)
Offsetting Receipts	(388)	(452)

#### Net Obligations

Imputed Financing	161	156
Other Resources	247	678

#### Total Resources Used to Finance Activities

30,413	26,962
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### Resources Used to Finance Items not Part of Net Cost:

Resources Obligated for Future Costs - goods ordered but not yet provided	(460)	989
Resources that Finance the Acquisition of Assets	(2,296)	(2,468)
Resources that Fund Expenses Recognized in Prior Periods	(1,124)	(670)
Other	(33)	(14)

#### Total Resources Used to Finance Items not Part of Net Cost

(3,913)	(2,163)
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#### Total Resources Used to Finance the Net Cost of Operations

26,500	24,799
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### Components of the Net Cost of Operations that will not require or generate Resources in the Current Period:

Increase in Actuarial Liability	(976)	633
Passport Fees Reported as Revenue Returned to Treasury General Fund	(770)	(687)
Depreciation and Amortization	883	812
Interest Income of Trust Funds	(648)	(675)
Other	19	185

#### Total Components of the Net Cost of Operations that will not require or generate Resources in the Current Period

(1,492)	268
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#### Net Cost of Operations

\$ 25,008	\$ 25,067
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## 19 FIDUCIARY ACTIVITIES

The Resolution of the Iraqi Claims deposit fund 19X6038, Libyan Claims deposit fund 19X6224, and the Saudi Arabia Claims deposit fund 19X6225 are presented in accordance with SFFAS No. 31, *Accounting for Fiduciary Activities*, and OMB Circular A-136, *Financial Reporting Requirements*, revised. These deposit funds were authorized by claims settlement agreements between the United States of America and the Governments of Iraq, Libya, and Saudi Arabia. The agreements authorized the Department to collect contributions from donors for the purpose of providing compensation for certain claims within the scope of the

agreements, investment of contributions into Treasury securities, and disbursement of contributions received in accordance with the agreements. As specified in the agreements, donors could include governments, institutions, entities, corporations, associations, and individuals. The Department manages these funds in a fiduciary capacity and does not have ownership rights against its contributions and investments; the assets and activities summarized in the schedules below do not appear in the financial statements. The Department's fiduciary activities are disclosed in this footnote.

### Schedule of Fiduciary Activity

As of September 30,  
(dollars in millions)

	2014				2013			
	19-X-6038	19-X-6224	19-X-6225	Total	19-X-6038	19-X-6224	19-X-6225	Total
Fiduciary Net Assets, Beginning of Year	\$ 103	\$ —	\$ 1	\$ 104	\$ 132	\$ —	\$ 1	\$ 133
Contributions	—	—	87	87	—	—	146	146
Disbursements to and on behalf of beneficiaries	(1)	—	(57)	(58)	(29)	—	(146)	(175)
Increases/(Decreases) in Fiduciary Net Assets	(1)	—	30	29	(29)	—	—	(29)
Fiduciary Net Assets, End of Year	\$ 102	\$ —	\$ 31	\$ 133	\$ 103	\$ —	\$ 1	\$ 104

### Fiduciary Net Assets

As of September 30,  
(dollars in millions)

	2014				2013			
	19-X-6038	19-X-6224	19-X-6225	Total	19-X-6038	19-X-6224	19-X-6225	Total
Fiduciary Assets								
Cash & Cash Equivalents	\$ 4	\$ —	\$ 31	\$ 35	\$ 5	\$ —	\$ 1	\$ 6
Investments	98	—	—	98	98	—	—	98
Total Fiduciary Net Assets	\$ 102	\$ —	\$ 31	\$ 133	\$ 103	\$ —	\$ 1	\$ 104



A grand reception honored Pakistani siblings Samina Baig and Mirza Ali. Samina Baig was the first Pakistani woman to climb Mt. Everest in 2013, and will claim the title of being the first Pakistani woman and the first Muslim woman to climb the seven summits. Samina and Mirza also met with visiting students from Pakistan on a Summer Sisters program through the US-Pakistan Women's Council in Virginia, July 17, 2014. *Department of State*

## FOCUS

### US-Pakistan Women's Council 2014

The State Department launched the US-Pakistan Women's Council in 2012 to promote women's economic participation in Pakistan. Chaired by U.S. Ambassador-at-Large for Global Women's Issues Catherine Russell and President of American University Neil Kerwin, the Council is a public-private partnership that works to advance three critical pillars to growing women's economic participation: women's **entrepreneurship, employment, and education**. Through the support of leading figures in government, the private sector, and civil society in the United States and Pakistan, the Council has accomplished several initiatives.

#### Entrepreneurship

- In September 2014, American University received a \$500,000 grant from the U.S. Embassy to scale up women's businesses through a joint certificate training program to be conducted with Lahore University of Management Sciences.
- In June 2014, Ambassador Richard Olson announced the WECREATE center in Islamabad, which will provide access to resources and capacity building for women

entrepreneurs in Pakistan. The Center, funded by the U.S. Department of State's Office of Global Women's Issues, is coordinated by the Bureau of Economic Affairs and the U.S. Embassy and implemented by StartUp Cup in partnership with TiE Islamabad and Hashoo Foundation.

#### Employment

- The U.S. Embassy co-hosted a Women in the Workplace event in June 2014 in Islamabad to highlight the importance of women competing in the economy and to emphasize the private sector's role in supporting women-friendly policies in the workforce.

#### Education

- The Council launched the U.S. Summer Sisters Exchange program for female high school students to inspire and equip them with the skills needed to achieve their professional goals; six students studied in the U.S. In 2014, scholarships for seven students were provided by Harvard, Smith, American University, George Washington University, Babson College, and the Eleanor Roosevelt leadership Center at Vassar College.

# Required Supplementary Information

## COMBINING SCHEDULE OF BUDGETARY RESOURCES

For the Year Ended September 30, 2014 (dollars in millions)

	Administration of Foreign Affairs	International Organizations	International Commissions	Foreign Assistance	Other	Total
<b>Budgetary Resources:</b>						
Unobligated balance brought forward, October 1	\$ 10,549	\$ 269	\$ 82	\$ 793	\$ 10,180	\$ 21,873
Adjustment to unobligated balance brought forward, October 1	5	—	(4)	—	21	22
Unobligated balance brought forward, October 1, as adjusted	10,554	269	78	793	10,201	21,895
Recoveries of prior year unpaid obligations	1,141	16	5	90	418	1,670
Other changes in unobligated balance	2	(9)	(1)	139	(714)	(583)
Unobligated balance from prior year budget authority, net	11,697	276	82	1,022	9,905	22,982
Appropriations (discretionary and mandatory)	12,463	3,106	127	1,524	13,204	30,424
Borrowing authority (discretionary and mandatory)	1	—	—	—	—	1
Contract authority (discretionary and mandatory)	—	—	—	—	—	—
Spending authority from offsetting collections (discretionary and mandatory)	10,975	—	8	41	40	11,064
<b>Total Budgetary Resources</b>	<b>\$ 35,136</b>	<b>\$ 3,382</b>	<b>\$ 217</b>	<b>\$ 2,587</b>	<b>\$ 23,149</b>	<b>\$ 64,471</b>
<b>Status of Budgetary Resources:</b>						
Obligations incurred	\$ 24,625	\$ 3,202	\$ 148	\$ 1,601	\$ 13,551	\$ 43,127
<b>Unobligated balance, end of year:</b>						
Apportioned	8,975	174	64	798	9,136	19,147
Exempt from apportionment	368	—	—	—	—	368
Unapportioned	1,168	6	5	188	462	1,829
Unobligated balance, end of year	10,511	180	69	986	9,598	21,344
<b>Total Status of Budgetary Resources</b>	<b>\$ 35,136</b>	<b>\$ 3,382</b>	<b>\$ 217</b>	<b>\$ 2,587</b>	<b>\$ 23,149</b>	<b>\$ 64,471</b>
<b>Change in Obligated Balance:</b>						
<b>Unpaid Obligations:</b>						
Unpaid obligations, brought forward, Oct 1 (gross)	\$ 12,618	\$ 317	\$ 80	\$ 1,930	\$ 11,719	\$ 26,664
Adjustments to unpaid obligations, start of year (+ or -)	—	—	—	—	(71)	(71)
Obligations incurred	24,625	3,202	148	1,601	13,551	43,127
Outlays (gross) (-)	(22,805)	(3,241)	(131)	(2,021)	(13,141)	(41,339)
Actual transfers, unpaid obligations (net) (+ or -)	—	—	—	—	—	—
Recoveries of prior year unpaid obligations (-)	(1,141)	(16)	(5)	(90)	(418)	(1,670)
Unpaid obligations, end of year (gross)	<b>\$ 13,297</b>	<b>\$ 262</b>	<b>\$ 92</b>	<b>\$ 1,420</b>	<b>\$ 11,640</b>	<b>\$ 26,711</b>
<b>Uncollected payments:</b>						
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	\$ (782)	\$ —	\$ (7)	\$ (1)	\$ (82)	\$ (872)
Adjustments to uncollected pymts, Fed sources, start of year (+ or -) (Note 28)	—	—	4	—	—	4
Change in uncollected customer payments from Federal sources (+ or -)	458	—	(1)	—	32	489
Actual transfers, uncollected payments from Federal source (net) (+ or -)	—	—	—	—	—	—
Uncollected customer payments from Federal sources, end of year (-)	<b>\$ (324)</b>	<b>\$ —</b>	<b>\$ (4)</b>	<b>\$ (1)</b>	<b>\$ (50)</b>	<b>\$ (379)</b>
<b>Memorandum (non-add) entries</b>						
Obligated balance, start of year (+ or -)	11,836	317	77	1,929	11,566	25,725
Obligated balance, end of year (+ or -)	12,973	262	88	1,419	11,590	26,332

(continued on next page)

COMBINING SCHEDULE OF BUDGETARY RESOURCES *(continued)*

	Administration of Foreign Affairs	International Organizations	International Commissions	Foreign Assistance	Other	Total
<b>Budget Authority and Outlays, Net:</b>						
Budget authority, gross (discretionary and mandatory)	\$ 23,439	\$ 3,106	\$ 135	\$ 1,565	\$ 13,244	\$ 41,489
Actual offsetting collections (discretionary and mandatory) (-)	(11,400)	—	(7)	(41)	(72)	(11,520)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	458	—	(1)	—	32	489
Anticipated offsetting collections (discretionary and mandatory) (+ or -)	—	—	—	—	—	—
Budget authority, net (discretionary and mandatory)	12,497	3,106	127	1,524	13,204	30,458
Outlays, gross (discretionary and mandatory)	22,805	3,241	131	2,021	13,141	41,339
Actual offsetting collections (discretionary and mandatory) (-)	(11,400)	—	(7)	(41)	(72)	(11,520)
Outlays, net (discretionary and mandatory)	11,405	3,241	124	1,980	13,069	29,819
Distributed offsetting receipts (-)	(388)	—	—	—	—	(388)
<b>Agency outlays, net (discretionary and mandatory)</b>	<b>\$ 11,017</b>	<b>\$ 3,241</b>	<b>\$ 124</b>	<b>\$ 1,980</b>	<b>\$ 13,069</b>	<b>\$ 29,431</b>

## DEFERRED MAINTENANCE FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

The Department occupies more than 3,014 government-owned or long-term leased real properties at more than 270 overseas locations and IBWC. It uses a condition assessment survey method to evaluate the asset's condition, and determine the repair and maintenance requirements for its overseas buildings and IBWC properties.

SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, requires that deferred maintenance (measured using the condition survey method) and the description of the requirements or standards for acceptable operating condition be disclosed. Fundamentally, the Department considers all of its overseas facilities to be in an "acceptable condition" in that they serve their required mission. Adopting standard criteria for a classification of acceptable condition is difficult due to the complex environment in which the Department operates.

From a budgetary perspective, funding for maintenance and repair has been insufficient in the past. As a result, the Department has identified current maintenance and repair backlog of \$180 million in 2014 and \$148 million in 2013 for buildings and facilities-related equipment and heritage assets that have not been funded.

## HERITAGE ASSETS

The condition of the Department's heritage assets is based on professional conservation standards. The Department performs periodic condition surveys to ensure heritage assets are documented and preserved for future generations. Once these objects are conserved, regular follow-up inspections and periodic maintenance treatments are essential for their preservation. The categories of condition are Poor, Good, and Excellent.

## CONDITION OF HERITAGE ASSETS

As of September 30, 2014

Category	Number of Assets	Condition
Diplomatic Reception Rooms Collection	1,732	Good to Excellent
Art Bank Program	2,500	Good to Excellent
Art in Embassies Program	1,070	Good to Excellent
Cultural Heritage Collection	18,206	Good to Excellent
Library Rare & Special Book Collection	1,112	Poor to Good
Secretary of State's Register of Culturally Significant Property	26	Poor to Excellent
U.S. Diplomacy Center	3,088	Good to Excellent
Blair House	2,619	Good to Excellent



U.S. Secretary of State John Kerry speaks to local high school students about their science studies and conservation efforts aboard a replica of the famed exploring vessel HMB Endeavour during an ocean conservation event in Sydney, Australia, August 11, 2014. *Department of State*

# SECTION III:

# Other Information

## Schedule of Spending

The Schedule of Spending (SOS) presents an overview of how much money is available to spend and how or on what that money was spent. The term “spend”, as used in this report, means obligated. Obligation means a legally binding agreement that will result in outlays, immediately or in the future. In layman’s terms, obligations are incurred when you place an order, sign a contract, award a grant, purchase a service, or take other actions that require the Government to make payments to the public or from one Government account to another. It does not equate to expenses as reported in the Statement of Net Cost. The data used to prepare this report is the same underlying data used to prepare the Statement of Budgetary Resources (SBR).

The Office of Management and Budget (OMB) makes available a searchable website, [www.USAspending.gov](http://www.USAspending.gov), that provides information on federal awards of contracts and grants and is accessible to the public at no cost. When comparing USAspending.gov data to the SOS one must take into account that the website has a fundamentally different purpose and, as such, there are differences that include but are not limited to personnel compensation, travel, utilities and leases, intra-departmental and interagency spending, and various other categories of financial awards. As a result, USAspending.gov data will differ from the Schedule of Spending.

The Department’s total resources for the year ended September 30, 2014, were \$64.5 billion. During 2014, the Department spent \$43.1 billion of these resources as summarized below (*dollars in millions*).

### SCHEDULE OF SPENDING

(*dollars in millions*)

For the Year Ended September 30,	2014						2013
	Administration of Foreign Affairs	International Organizations	International Commissions	Foreign Assistance	Other	Total	Total
<b>What Money is Available to Spend?</b>							
Total Resources	\$ 35,136	\$ 3,382	\$ 217	\$ 2,587	\$ 23,149	\$ 64,471	\$ 60,564
Less Amount Available but Not Agreed to be Spent	9,343	174	64	798	9,136	19,515	20,363
Less Amount Not Available to be Spent	1,168	6	5	188	462	1,829	1,510
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 24,625</b>	<b>\$ 3,202</b>	<b>\$ 148</b>	<b>\$ 1,601</b>	<b>\$ 13,551</b>	<b>\$ 43,127</b>	<b>\$ 38,691</b>
<b>How was the Money Spent/Issued?</b>							
Personnel Compensation & Benefits	\$ 6,749	\$ —	\$ 25	\$ 6	\$ 317	\$ 7,097	\$ 7,230
Contractual Services & Supplies	12,195	—	66	713	1,794	14,768	14,108
Acquisition of Assets	2,636	—	15	9	116	2,776	1,864
Grants and Fixed Charges	1,812	3,186	37	766	10,916	16,717	13,661
Other	1,233	16	5	107	408	1,769	1,828
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 24,625</b>	<b>\$ 3,202</b>	<b>\$ 148</b>	<b>\$ 1,601</b>	<b>\$ 13,551</b>	<b>\$ 43,127</b>	<b>\$ 38,691</b>
<b>Who did the Money Go To?</b>							
Federal Agencies	\$ 11,653	\$ 137	\$ 16	\$ 701	\$ 2,250	\$ 14,757	\$ 13,425
For Profit	7,278	—	72	52	1,319	8,721	7,005
Grantees and Non Profits	515	3,063	32	817	9,321	13,748	12,191
Individuals	4,536	—	4	11	291	4,842	4,908
Other	643	2	24	20	370	1,059	1,162
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 24,625</b>	<b>\$ 3,202</b>	<b>\$ 148</b>	<b>\$ 1,601</b>	<b>\$ 13,551</b>	<b>\$ 43,127</b>	<b>\$ 38,691</b>

# Inspector General's Assessment of Management and Performance Challenges

The *Reports Consolidation Act of 2000* requires that the Department's Performance and Accountability Report include a statement by the Inspector General that summarizes the most serious management and performance challenges facing the Department and briefly assesses the progress in addressing them. The Office of Inspector General (OIG) considers the most serious management and performance challenges for the Department to be in the following areas:

1. Protection of People and Facilities
2. Managing Contracts, Acquisition, and Grants
3. Information Security and Management
4. Financial Management
5. Managing Posts in Conflict Areas
6. Rightsizing
7. Foreign Assistance Coordination and Oversight
8. Consular Operations
9. Leadership
10. Public Diplomacy

## 1 PROTECTION OF PEOPLE AND FACILITIES

Protecting overseas personnel and facilities continues to be a management challenge. In 2013, there were 22 attacks on embassy facilities or personnel, including protestors throwing cans of paint over embassy walls and a firefight against armed attackers that resulted in the deaths of the eight attackers and seven members of the local security force.<sup>1</sup> Since the September 2012 Benghazi attacks, the Department has taken steps to protect against or prevent future attacks. The Department created the High Threat Programs Directorate



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to address issues unique to High Threat High Risk missions, and the Department developed an annual risk management/risk assessment "vital presence validation (VP2) process," under which Department entities assess whether High Threat High Risk missions should remain open or closed given the risks and whether staffing levels at those missions are appropriate. Additional steps, however, are needed to protect overseas personnel and facilities.

Immediately following the Benghazi attacks, OIG performed a series of audits that examined physical and procedural security measures, the physical-security funding process, emergency action planning, the Worldwide Protective Services contract, the suitability vetting of local guards, the Marine Security Guard (MSG) program, and the use of emerging threat information at posts worldwide. In addition, OIG issued 10 Outlines for Action, identifying weaknesses that required expeditious attention by Department management.

OIG found that certain high- and medium-threat posts were not in compliance with current physical and procedural security standards.<sup>2</sup> In a project to determine the funding process for physical-security needs at overseas posts,<sup>3</sup> OIG could not determine the extent to which the Department used funds to address high-priority, physical-security needs because the Department did not have a comprehensive list of all physical-security deficiencies. If exploited, these deficiencies could compromise the safety of post personnel and property.

OIG also determined that management and oversight of security personnel was lacking<sup>4</sup> and that none of six security contractors reviewed had fully performed all vetting requirements contained in contracts for the Local Guard

<sup>1</sup> Department of State, Bureau of Diplomatic Security, "Year in Review 2013—Confronting Danger."

<sup>2</sup> Audit of Department of State Compliance with Physical Security Standards at Selected Posts within the Bureau of African Affairs (AUD-HCI-13-40, September 2013).

<sup>3</sup> Audit of the Process To Request and Prioritize Physical Security-Related Activities at Overseas Posts (AUD-FM-14-17, March 2014).

<sup>4</sup> Audit of Bureau of Diplomatic Security Worldwide Protective Services Contract – Task Order 5 for Baghdad Movement Security (AUD-MERO-13-25, March 2014).

Program. Employing improperly screened guards at sensitive locations increases risk for embassies and personnel.<sup>5</sup> OIG found that the Department could not demonstrate that it had effectively managed key aspects of the MSG program. Additionally, the Department could not demonstrate it had formal, documented procedures to guide the identification and selection of overseas posts that could benefit from new or reallocated MSG detachments.<sup>6</sup>

OIG found that six posts that it audited received threat information, had the necessary information to adjust their security postures, and used threat information in accordance with requirements. OIG reported that the Department had not developed standards for what constitutes a timely response to post.<sup>7</sup> During the compliance process, the Department provided documentation to OIG showing that it had established and implemented standards for what constitutes a timely response. Regarding the Department's management of emergency-action planning at U.S. Mission Pakistan, OIG found that the posts had developed, and the Department had approved, such plans and that posts routinely had trained staff on the plans and practiced responses to potential emergencies. However, neither the posts nor the responsible bureau had ensured that posts had sufficient resources to respond to all types of emergencies or prolonged periods of crisis.<sup>8</sup>

## 2 MANAGING CONTRACTS, ACQUISITION, AND GRANTS

The Department continues to face challenges managing contracts and grants, including cooperative agreements.<sup>9</sup> The challenges have been reported in OIG audits, inspections, and investigations and were highlighted in two Management Alerts for senior Department management. For example, in

FY 2014, 56 percent of the inspections carried out in overseas posts and domestic bureaus contained formal recommendations to strengthen controls and improve administration of contracts and grants. In a number of sites inspected during FY 2014,<sup>10</sup> inspectors recommended increased training for grant officer representatives (GOR).

OIG found that the Bureau of International Narcotics and Law Enforcement Affairs (INL) had not consistently encouraged competition in the awarding of grants, awarding 82 of 250 (33 percent) grants and cooperative agreements through sole-source justifications rather than through full and open competition. OIG also found that the Bureau of Conflict and Stabilization Operations (CSO) had awarded 80 percent of its grants and cooperative agreements (66 percent of total funding) with sole-source justifications instead of full and open competition.<sup>11</sup>

In one Management Alert,<sup>12</sup> OIG reported that, over the past six years, OIG had identified Department contracts with a total value of more than \$6 billion in which contract files were incomplete or could not be located at all. The Alert stated that failure to maintain contract files creates significant financial risk, demonstrates a lack of internal control over the Department's contract actions, creates conditions conducive to fraud, impairs the ability of the Department to take effective and timely action to protect its interests, and limits the ability of the Government to punish and deter criminal behavior.

In another Management Alert,<sup>13</sup> OIG highlighted deficiencies with overall grants management caused by too few staff managing too many grants, including weaknesses in oversight; insufficient training of grant officials; and inadequate documentation and closeout of grant activities. The Alert

<sup>5</sup> Audit of Contractor Compliance With and Department of State Oversight of the Process Required for Vetting Local Guards (AUD-HCI-14-24, June 2014).

<sup>6</sup> Audit of the Department of State Management of the Marine Security Guard Program and Plans for Program Expansion (AUD-SI-14-30, September 2014).

<sup>7</sup> Audit of Department of State Use of Threat Information to Enhance Security at High-Threat Overseas Posts (AUD-SI-14-25, May 2014).

<sup>8</sup> Audit of Emergency Action Plans for U.S. Mission Pakistan (AUD-MERO-14-08, December 2013).

<sup>9</sup> United States Department of State Fiscal Year 2013 Agency Financial Report, December 2013, p. 48.

<sup>10</sup> Inspections of the Bureaus of Conflict and Stabilization Operations (ISP-I-14-06, March 2014) and International Security and Nonproliferation (ISP-I-14-19, July 2014). Inspections of Embassies Kabul (ISP-I-14-22A, August 2014), La Paz (ISP-I-14-16A, July 2014), Lima (ISP-I-14-12A, June 2014), Manama (ISP-I-14-07A, March 2014), and San Salvador (ISP I 14 05A, March 2014).

<sup>11</sup> Inspection of the Bureau of Conflict and Stabilization Operations (ISP-I-14-06, March 2014).

<sup>12</sup> Management Alert (Contract File Management Deficiencies), MA-A-0002, March 20, 2014.

<sup>13</sup> Management Alert (Grants Management Deficiencies), MA-14-03, September 26, 2014.

stated that failure to maintain appropriate oversight of grants results in a lack of internal control and exposes the Department to significant financial risk. These conditions could lead to the misuse or misappropriation of grant funds, failure to meet grant program objectives, and inability to utilize unused grant funds that have expired. Both Management Alerts made recommendations to senior Department officials to mitigate the highlighted vulnerabilities.

Other OIG products also identified ongoing challenges with contract and grants management. For example, one audit<sup>14</sup> identified five areas in which a regional bureau had not always administered or overseen its contracts in accordance with Federal laws and Department guidance and also identified eight areas in which grants personnel had inadequately administered and monitored its grants. During a review to determine whether the Department had effectively and efficiently closed contracts supporting the U.S. Mission in Iraq, OIG determined that the contract closeout teams and the contracting officers had not consistently met Federal and Department contract closeout requirements for the 115 Iraq-related contract task orders reviewed.

### **3 INFORMATION SECURITY AND MANAGEMENT**

The Department continues to face difficulties meeting the requirements of the Federal Information Security Management Act of 2002 (FISMA) and implementing a fully effective information security management program. During the FY 2014 FISMA audit, OIG found that the Department was expending new funds toward information security program improvements, which were not fully implemented at the time of review. In addition, OIG identified security control weaknesses that had significantly impacted the information security program, potentially undermining the confidentiality, integrity, and availability of information and information systems. Because these serious vulnerabilities have recurred for several years, OIG considers the collective security weaknesses a significant deficiency under FISMA.<sup>15</sup>

Several of OIG's domestic inspections during the fiscal year highlighted continuing service delivery problems from the Bureau of Information Resource Management (IRM). The inspections of the Bureaus of Economic and Business Affairs, CSO, International Security and Nonproliferation,<sup>16</sup> and the Bureau of Diplomatic Security's High Threat Post Directorate, all demonstrated deficiencies in IRM's ability to provide high quality customer service that meets the bureaus' business requirements. Problems reported ranged from general dissatisfaction to complaints about delays that impede work, questionable practices related to closing of trouble tickets, and general ambiguity of roles and responsibilities as they relate to the master service-level agreements between IRM and bureaus.

Numerous recent inspection reports identified the reemergence of problems involving systems and communications capabilities related to emergency preparedness at overseas posts and domestic bureaus. This was the case despite OIG's 2011 memorandum<sup>17</sup> highlighting the need for increased attention by Department senior management to improve IT contingency planning. During FY 2014, OIG inspection teams encountered problems related to IT emergency preparedness during several inspections including non-existent, outdated, or untested contingency plans, untested alternate command centers, and insufficient or untested radio and telephone equipment.

A lack of participation in drills and exercises related to emergency planning demonstrates a continuing lack of awareness and commitment to emergency preparedness.

### **4 FINANCIAL MANAGEMENT**

Financial management continues to be a significant management challenge for the Department. During the audit of the FY 2013 financial statements,<sup>18</sup> an independent auditor identified significant internal control deficiencies related to financial reporting, property and equipment, budgetary accounting, unliquidated obligations, retirement fund data, and information technology. In another audit report,<sup>19</sup> OIG found

<sup>14</sup> Audit of the Administration and Oversight of Contracts and Grants Within the Bureau of African Affairs (AUD CG-14-31, August 2014).

<sup>15</sup> Management Alert (OIG Findings of Significant and Recurring Weaknesses in the Department of State Information System Security Program), MA-A-0001, January 13, 2013.

<sup>16</sup> Inspections of the Bureaus of Economic and Business Affairs (ISP-I-14-01, February 2014), Conflict and Stabilization Operations (ISP-I-14-06, March 2014), and International Security and Nonproliferation (ISP-I-14-19, July 2014).

<sup>17</sup> Memorandum Report—Improvements needed in Information Technology Contingency Planning (ISP-I-12-04, December 2011).

<sup>18</sup> Independent Auditor's Report on the U.S. Department of State 2013 and 2012 Financial Statements (AUD-FM-14-10, December 2013).

<sup>19</sup> Audit of Department of State Use of Appropriated Funds Prior to Expiration and Cancellation (AUD-FM-14-21, May 2014).

that although the Department had generally used most of its available funds within the periods of availability, there were opportunities to improve fund management. OIG identified two issues that had negatively affected fund management and that could be improved: insufficient oversight of unliquidated obligations and delays in the contract closeout process. Because of limitations in funds management in these two areas, the Department lost the use of approximately \$153 million in funds. Based on information provided during the compliance process, bureaus have taken action to improve their efforts to oversee unliquidated obligations in response to this audit.

## 5 MANAGING POSTS IN CONFLICT AREAS

Managing the civilian presences in Iraq and Afghanistan remains a major challenge for the Department. Three years after the transition from a military-led to a civilian-led presence in Iraq, political instability, inter-ethnic strife, and the resumption of limited U.S. military activity illustrate the complexities affecting decision-making regarding U.S. presence overseas.<sup>20</sup> Prior to the signing of the Bilateral Security Agreement, the ongoing transition to a civilian-led U.S. presence in Afghanistan was hampered by host government indecision about a continuing U.S. military presence.<sup>21</sup> To address these transition issues in Kabul, OIG recommended that the mission undertake a critical review of assistance programs to determine which are effective, sustainable, and can be adequately administered and monitored in a changing security environment with frequent turnover of both American and locally employed staff.<sup>22</sup>

Drawdowns, “relocations,” and closures of U.S. posts in the Middle East and Africa have demonstrated that Iraq and Afghanistan are not the only locations facing management challenges amid physical perils. OIG teams identified missions where long-standing security vulnerabilities had not been addressed.<sup>23</sup>

## 6 RIGHTSIZING

During a number of inspections, OIG questioned the Department’s rationale for maintaining embassies, consulates, and other diplomatic facilities in certain locations considering the cost benefits and the security and safety concerns. Establishing optimal staffing levels also presents an ongoing management challenge.

OIG also recommended that the Department clarify mission staffing projections during four inspections in 2014.<sup>24</sup> At Embassy Bujumbura, OIG found no evidence that Department bureaus had supported the embassy’s continued plans for growth (as outlined in its Mission Resources Request) and recommended that the mission submit an amended rightsizing report on “the basis of current operating conditions, realistic staffing predictions...and the minimum number of U.S. direct-hire staff necessary to run the embassy.”<sup>25</sup> OIG recommended an off-cycle rightsizing review of Embassy Tbilisi because growth in the mission had exceeded previous projections. OIG recommended that Embassy Kabul conduct a rightsizing review after decisions are made on the level of remaining U.S. and international forces. At Embassy Abu Dhabi, OIG noted that direct hire staffing had increased from 102 to 327 from 2004 to 2013. However, the process by which the Chief of Mission set the size and composition of that staffing<sup>26</sup> had not accomplished its intended purpose: staffing discussions were limited to too few people and did not reach the broader strategic level necessary to determine agencies’ mandates and how the mix of agencies maximizes U.S. Government interests. OIG recommended that the Department clarify Embassy Abu Dhabi’s role as a regional platform.

The cost of assigning an employee overseas is almost triple that of basing an employee domestically (\$601,139/year vs. \$228,282/year).<sup>27</sup> OIG continues to find unneeded positions overseas, which also places employees and their families at unnecessary security risk because of needless overseas

<sup>20</sup> NEA Press Guidance, July 1, 2014.

<sup>21</sup> *Inspection of Embassy Kabul and Constituent Posts* (ISP-I-14-22A, August 2014).

<sup>22</sup> *Inspection of Embassy Kabul and Constituent Posts* (ISP-I-14-22A, August 2014).

<sup>23</sup> *Inspection of Embassy Kampala, Uganda* (ISP-I-14-18A, July 2014). Note: The first cycle of the Department’s VP2 process, used to identify high-threat posts and to evaluate their viability, will not be completed until early 2015.

<sup>24</sup> *Inspections of Embassies Bujumbura* (ISP-I-14-20A, July 2014), *Kabul* (ISP-I-14-22A, August 2014), and *Abu Dhabi* (ISP-I-14-11A, May 2014).

<sup>25</sup> *Inspection of Embassy Bujumbura, Burundi* (ISP-I-14-20A, July 2014).

<sup>26</sup> National Security Decision Directive 38.

<sup>27</sup> Office of Management, Policy and Innovation New Position Cost Model for FY 2015.

assignment. At the same time, more employees are needed in other locations.

In OIG's 2014 inspection of Embassy Abu Dhabi, OIG questioned the Department's justification for maintaining an eight-person regional office of the Middle East Partnership Initiative in the United Arab Emirates after the host government enforced restrictions on the program, including the prohibition of future grants in-country.<sup>28</sup> OIG recommended closing that regional office for a savings of about \$1.5 million. At Embassy Panama City,<sup>29</sup> OIG found that an Information Resource Center specialist position was unnecessary and could be abolished because the mission's Information Resource Center had closed in January 2013. OIG found that the Department could save \$4.3 million annually by assigning voucher examiners in low-cost missions or in the South Carolina-based remote voucher processing unit to review and process vouchers, rather than assigning these tasks to voucher examiners located at high-cost missions.<sup>30</sup> In 2013, OIG recommended that the Department relocate 80 percent of its 99 regional information technology specialists to the United States because most of the services that they provided from overseas missions were routine and could be provided from the United States.<sup>31</sup>

The Department employs three programs to manage overseas staffing. First, Congress requires the Department to complete a rightsizing review of each overseas U.S. mission at least once every five years to ensure for example that staffing is aligned with strategic goals. Second, National Security Directive 38 requires Chief of Mission approval on any proposed changes in the size, composition, or mandate of staff elements for agencies under Chief of Mission authority. Both of these programs are administered by the Office of Management Policy, Rightsizing and Innovation, which OIG plans to inspect in FY 2015. Third, the recently established VP2 process will also affect staffing at high-threat posts.

OIG was similarly engaged with respect to domestic inspections. In the inspection of the Bureau of Economic and Business Affairs,<sup>32</sup> OIG recommended significant reorganization and rightsizing to reduce costs and enhance efficiency, including reducing staff in three offices, merging two offices into a single entity, eliminating two divisions in another office, and abolishing a fourth office entirely. The report also recommended adding positions in three offices that were inadequately staffed, including an office that leads the effort to increase economic officers' focus on identifying export opportunities for U.S. businesses, a stated priority of the administration and the Department.

In its inspection of CSO,<sup>33</sup> OIG found that the front office was overstaffed and recommended a reduction in the number of deputy assistant secretaries. The report on the Bureau of Arms Control, Verification, and Compliance<sup>34</sup> noted that the bureau had a high supervisor-to-employee ratio and called on the bureau to conduct an assessment to establish a more appropriate level. OIG also recommended in that report that mid-level Civil Service positions be established overseas to provide those employees opportunities to gain experience with multilateral negotiations.

## 7 FOREIGN ASSISTANCE COORDINATION AND OVERSIGHT

Foreign assistance resources managed by the Department and the U.S. Agency for International Development (USAID) under the direction of the Secretary of State have grown substantially over the last 10 years.<sup>35</sup> Coordinating foreign assistance programs among agencies, Department bureaus, and missions is a continuing challenge as is the proper design and oversight of Department-managed assistance programs.

Coordination problems plague domestic bureaus as well.<sup>36</sup> During the inspection of CSO, OIG noted that the bureau's mission overlapped with other U.S. Government entities,

<sup>28</sup> *Inspection of Abu Dhabi and Consulate General Dubai, United Arab Emirates* (ISP-I-14-11A, May 2014).

<sup>29</sup> *Inspection of Embassy Panama City, Panama* (ISP-I-14-04A, February 2014).

<sup>30</sup> *Review of Remote Voucher Processing* (ISP-I-14-21, July 2014).

<sup>31</sup> *Inspection of Regional Information Management Centers* (ISP-I-13-14, February 2013).

<sup>32</sup> *Inspection of the Bureau of Economic and Business Affairs* (ISP-I-14-01, February 2014).

<sup>33</sup> *Inspection of the Bureau of Conflict and Stabilization Operations* (ISP-I-14-06, March 2014).

<sup>34</sup> *Inspection of the Bureau of Arms Control, Verification, and Compliance* (ISP-I-14-14A, June 2014).

<sup>35</sup> 18 FAM 057.7 and QDDR, 2010, p. 116.

<sup>36</sup> *Inspections of the Bureaus of Conflict and Stabilization Operations* (ISP-I-14-06, March 2014) and *Economic and Business Affairs* (ISP-I-14-01, February 2014).

including USAID's Office of Transition Initiatives and the Bureau of Democracy, Human Rights, and Labor; the Bureau of International Narcotics and Law Enforcement Affairs, and the Bureau of Near Eastern Affairs' Middle East Partnership Initiative. This overlap appeared to extend into CSO's programs; OIG found that although CSO had not received appropriated foreign assistance funds, it had competed to obtain these funds from other entities. OIG recommended that CSO should fully coordinate with other entities to avoid duplication of effort, expenditures, and personnel. OIG also recommended that in an era of scarce resources, CSO should compete for program resources only when no other appropriate entity is available to implement a program deemed necessary to avoid or mitigate conflict. OIG highlighted a similar problem during the inspection of the Bureau of Economic and Business Affairs.

In addition to problems with program coordination, the Department also struggles to track the status of its foreign assistance funds. Neither the domestic Global Financial Management System and its data repository, nor the Overseas Regional Financial Management System and its data repository, can easily collect and analyze funding and expenditures by program, project, or country. Inspections and audits of INL,<sup>37</sup> the Office of U.S. Foreign Assistance Resources,<sup>38</sup> the Bureau of International Security and Nonproliferation,<sup>39</sup> including the Nonproliferation and Disarmament Fund,<sup>40</sup> and the Bureaus of Near Eastern Affairs and South and Central Asian Affairs<sup>41</sup> noted that, because of the inadequacy and incompatibility of the Department's core financial systems, offices had created their own ad hoc systems and informal records in order to manage foreign assistance funds. These processes are time-consuming and subject to human error resulting in inaccurate accounting, incomplete reports, an inability to reconcile field, Washington, and automated records, and an increased vulnerability to fraud, waste, and abuse.

Inspectors continued to note weaknesses in the design and oversight of assistance programs and grants. At Embassy Panama City, where the Department awarded 177 grants totaling \$7.6 million over five years, OIG found that grant management responsibilities were too widely dispersed, making it difficult to ensure consistent oversight. Improvements were particularly important because several of the grantees were considered high-risk according to the Department's definition and required increased monitoring. OIG found that Embassy San Salvador lacked trained GORs to oversee foreign assistance programs, including two INL grants totaling more than \$2 million. During the inspection of CSO, OIG found that new program officers and GORs were confused about their roles, the role of the grants officer, and the role of the grantees. At Embassy Kabul, OIG noted that some grant monitoring plans did not reflect the realities of overseeing grantees in difficult locations. OIG's audit of INL's corrections system support program in Afghanistan highlighted that INL obligated funds without first ensuring that programs met USAID's sustainability guidance, a requirement included in the Consolidated Appropriations Act of 2012.

At the same time, the Department has made some progress in facilitating transparency and coordination. It recently posted some, but not all, foreign assistance information by country to [www.foreignassistance.gov](http://www.foreignassistance.gov). The Department also started posting completed mission and bureau program evaluations on the internet. Additionally, the Department required that work commitments of contracting officer representatives (CORs) spending more than 25 percent of their time on COR duties, reflect those duties;<sup>42</sup> however, the requirement did not extend to GORs. On the CSO inspection, OIG recommended that GOR responsibilities be included in employees' work commitments so that GORs could be held accountable for performance.<sup>43</sup>

<sup>37</sup> *Inspection of the Bureau of International Narcotics and Law Enforcement Affairs* (ISP-I-05-14, July 2005); Survey of the Status of Funding for Iraq Programs Allocated to the Department of State's Bureau of International Narcotics and Law Enforcement Affairs as of December 31, 2005 (AUD/IQO-06-30 and SIGIR-06-018, July 2006); Audit of Narcotics Program Management Issues (98-CI-004); See also U.S. Senate, Committee on Homeland Security & Governmental Affairs, Subcommittee on Contracting Oversight, New Information about Counternarcotics Contracts in Latin America, June 2011.

<sup>38</sup> *Inspection of the Office of U.S. Foreign Assistance Resources* (ISP-I-11-57, August 2014).

<sup>39</sup> *Inspection of the Bureau of International Security and Nonproliferation* (ISP-I-14-19, July 2014).

<sup>40</sup> *Audit of Nonproliferation and Disarmament Fund (NDF) Controls Over Contracting and Project Management and Integrity of Financial Data* (AUD-FM-13-17, December 2012).

<sup>41</sup> *Inspections of the Bureaus of Near Eastern Affairs and South and Central Asian Affairs* (ISP-I-11-49A, May 2011 and ISP-I-11-47, June 2011).

<sup>42</sup> Department Notice 2014\_06\_196 will take effect during the 2014-2015 evaluation season.

<sup>43</sup> *Inspections of the Bureau of Conflict and Stabilization Operations* (ISP-I-14-06, March 2014) and *Embassy Kampala* (ISP-I-14-18A, July 2014).

## 8 CONSULAR OPERATIONS

An interview for a U.S. visa is the first encounter with the United States for most foreigners, and for many it is the only time they will talk to an American official. Providing services to U.S. citizens abroad is a fundamental and statutory duty of the Department. Planning and preparing for continued growth in demand for consular services from both groups remains a challenge for the Department. In FY 2014, OIG's inspection of the Bureau of Consular Affairs' Visa Services Directorate<sup>44</sup> (CA/VO) found that CA had leveraged a number of tools to meet demand, especially for non-immigrant visa applications including expansion of interview waivers, improved name checking systems, and implementation of a management project, known as 1CA, designed to bring consistency, balance, and business principles to consular management worldwide.

In FY 2014, inspections of a number of small to medium-sized consular sections, OIG found that not all consular managers were implementing these CA initiatives consistently. For example, Embassy Panama City had not implemented the authorized interview or personal appearance waivers, resulting in overcrowding in its waiting room.<sup>45</sup> Embassy Sofia had adopted a local practice of having its fraud investigator pre-screen 100 percent of documents presented by visa applicants, slowing down its processing without measurable results in fraud prevention.<sup>46</sup> Embassy Abu Dhabi<sup>47</sup> and Embassy Manama<sup>48</sup> had not codified standard operating procedures for handling matters that recur regularly.

Consular systems are a primary concern because every aspect of consular work rests on the usability, reliability, and integrity of the consular consolidated database, a system also used by other Federal agencies. At the time of the CA/VO

inspection, 11 of 35 recommendations from OIG's FY 2011 inspection of the Bureau's Office of Consular Systems and Technology<sup>49</sup> remained open, some of which are critical to consular consolidated database security.

CA's \$2.8 billion, 10-year contract for support services, known as the Global Support Strategy (GSS), is active at 172 posts. The GSS contract is designed to provide customer service in visa information dissemination, appointment setting, fee collection, and document delivery. In some countries, applicants visit offsite centers to submit their applications and have their photos and fingerprints taken, which can alleviate space constraints at some posts by reducing crowding in consular waiting rooms and enabling faster service at their interview appointments. CA does not expect to deploy GSS to the 58 consular sections whose workload averages less than 2,400 applications per year.<sup>50</sup>

## 9 LEADERSHIP

OIG's FY 2014 inspections of 19 overseas missions found that nearly half have leadership problems with ambassadors, charge d'affaires, or DCMs, that should have been addressed at post or by the Department. This number is high in part because of the priority OIG places on inspecting posts with known problems. For example, at Embassy Abu Dhabi, OIG found that the ambassador, while effective in areas such as building contacts with the host country and promoting U.S. commercial interests, needed to pay more attention to other important U.S. interests such as law enforcement and illicit finance. Further, the ambassador had received lower-than-average scores in every leadership category in an OIG-administered survey.<sup>51</sup> Other problems identified in overseas inspections include a lack of attention to leading and managing the mission,<sup>52</sup> inexperienced DCMs,<sup>53</sup>

<sup>44</sup> Inspection of the Bureau of Consular Affairs, Visa Services Directorate, pending publication, 2014.

<sup>45</sup> Inspection of Embassy Panama City, Panama (ISP-I-14-04A, February 2014).

<sup>46</sup> Inspection of Embassy Sofia, Bulgaria (ISP-I-14-02A, February 2014).

<sup>47</sup> Inspection of Embassy Abu Dhabi and Consulate General Dubai, United Arab Emirates (ISP-I-14-11A, May 2014).

<sup>48</sup> Inspection of Embassy Manama, Bahrain (ISP-I-14-07A, March 2014).

<sup>49</sup> Inspection of the Bureau of Consular Affairs, Office of Consular Systems and Technology (ISP-I-14-51).

<sup>50</sup> CA Web, GSS Services FAQs, accessed 9-30-2014 at <http://intranet.ca.state.gov/management/gss/faq/26677.aspx>.

<sup>51</sup> Inspection of Embassy Abu Dhabi and Consulate General Dubai, United Arab Emirates (ISP-I-14-11A, May 2014).

<sup>52</sup> Inspections of Embassies Abu Dhabi (ISP-I-14-11A) and Manama (ISP-I-14-07A, May 2014).

<sup>53</sup> Inspection of Embassy Sofia, Bulgaria (ISP-I-14-02A, February 2014).

onerous internal paperwork requirements,<sup>54</sup> and lack of clear mission goals.<sup>55</sup>

In FY 2014, inspectors also identified problems domestically. For example, inspectors found that CSO struggles from a lack of directional clarity, lack of transparency, micromanagement, and reorganizational fatigue. Inspectors found in the Bureau of Economic and Business Affairs a front-office staffing plan with excess staffing and redundancies.

The Department has taken recent steps toward improving the evaluation of leadership, beginning with the implementation of a Chief of Mission leadership survey in which the Department's direct hire U.S. employees at each embassy rate their ambassadors on 12 leadership qualities. This survey was an outgrowth of formal recommendations made by the OIG in 2010 and 2012.<sup>56</sup> The Department also issued the Leadership and Management Principles for Department Employees (3 FAM 1214), which the OIG recommended in 2012.<sup>57</sup>

## 10 PUBLIC DIPLOMACY

The biggest challenge for public diplomacy is how to link programming to policy priorities. The 2013 OIG inspection of the Bureau of International Information Programs<sup>58</sup> found that there is no Department-wide public diplomacy strategy that ties resources to priorities. In response, OIG recommended that the Office of the Under Secretary for Public Diplomacy and Public Affairs conduct a management review of public diplomacy in the Department. Further, stove-piping continues among the bureaus of Public Affairs, International Information Programs, and Education and Cultural Affairs. Department leadership has, however,

identified five specific areas of focus: entrepreneurship, educational diplomacy, countering violent extremism, environmental diplomacy, and professional growth.<sup>59</sup>

In addition, the Compliance Follow-up Review<sup>60</sup> to OIG's Inspection of the Bureau of Educational and Cultural Affairs<sup>61</sup> highlighted knowledge management as a critical unmet need. There are too many distinct systems designed to meet the unique management needs of ECA's 140 highly specialized programs. Inadequate knowledge management complicates the bureau's ability to quantify the relevance of its public diplomacy activities. The report recommended that the bureau create a data-collection system that is standardized but still meets individual program needs. Finally, OIG previously reported on social media challenges and recommended that guidelines be prepared for the Department.<sup>62</sup>

During overseas inspections, OIG found that very few missions used a social media strategy or plan to guide the embassies' social media content. Additionally, public affairs sections are not always aware of other agency activities and therefore miss opportunities to promote those activities.

During its physical inspection of 14 President's Emergency Plan for AIDS Relief (PEPFAR) funded facilities, OIG was often unable to determine what role, if any, the U.S. Government played in the financing and construction of these overseas health care facilities because signs affixed to the medical facilities were small and contained opaque wording. Therefore, OIG recommended that the Office of the U.S. Global AIDS Coordinator create standard signage for all PEPFAR-funded facilities to better highlight and display the American people's contribution to globally combat HIV/AIDS.<sup>63</sup>

<sup>54</sup> *Inspection of Embassy Lima, Peru (ISP-I-14-12A, June 2014).*

<sup>55</sup> *Inspection of Embassy Bridgetown, Barbados and Embassy St. Georges, Grenada (ISP-I-14-09A, March 2014).*

<sup>56</sup> *Implementation of a Process to Assess and Improve Leadership and Management of Department of State Posts and Bureaus (ISP-1-10-68, June 2010), Management Report—Improving Leadership at Posts and Bureaus (ISP-1-12-48, September 2012).*

<sup>57</sup> *Memorandum Report—Improving Leadership at Posts and Bureaus (ISP-1-12-48, September 2012).*

<sup>58</sup> *Inspection of the Bureau of International Information Programs (ISP-I-13-28, May 2013).*

<sup>59</sup> Cable from Under Secretary for Public Diplomacy and Public Affairs R. Stengel, February 14, 2014.

<sup>60</sup> *Compliance Follow-up Review of the Bureau of Educational and Cultural Affairs (ISP-C-13-51, September 2013).*

<sup>61</sup> *Inspection of the Bureau of Educational and Cultural Affairs (ISP-I-12-15, February 2012).*

<sup>62</sup> 5 FAM 790.

<sup>63</sup> *Compliance Follow-up Audit of Department of State Actions To Address Weaknesses in the Ownership, Award, Administration, and Transfer of Overseas Construction Funded by the President's Emergency Plan for AIDS Relief (AUD-ACF-14-32, August 2014).*

# Management's Response to Inspector General

In 2014, the Department of State's Office of Inspector General (OIG) identified management and performance challenges in the areas of: protection of people and facilities; managing contracts, acquisition, and grants; information security and management; financial management; managing posts in conflict areas; rightsizing; foreign assistance coordination and oversight; consular operations; leadership; and public diplomacy. The Department promptly takes corrective actions in response to OIG findings and recommendations. Highlights are summarized below.

1. PROTECTION OF PEOPLE AND FACILITIES	
<b>Challenge Summary</b>	<b>Protecting overseas personnel and facilities continues to be a management challenge. Since the September 2012 Benghazi attacks, the Department has taken steps to protect against or prevent future attacks.</b>
<b>Actions Taken</b>	The Department has created and funded 14 new Threat Analyst positions. Eight analysts will be deployed overseas, which will be the first time analysts are assigned to work for regional security officers abroad. Six analysts will be embedded in the Diplomatic Security Command Center to better evaluate incoming threat information on a 24/7 basis, in concert with our interagency partners.
<b>Actions Remaining</b>	The 14 Threat Analyst positions that have been created and advertised are scheduled to be filled during the current assignment cycle. Employees are expected to serve in these positions by summer 2015. The overseas analysts will complete one year of training domestically before deploying to their overseas posts by the summer of 2016.
2. MANAGING CONTRACTS, ACQUISITION, AND GRANTS	
<b>Challenge Summary</b>	<b>The Department continues to face challenges managing contracts and grants, including cooperative agreements.</b>
<b>Actions Taken</b>	A memorandum was issued in April 2014 from the Procurement Executive to all warranted contracting officers and Federal Acquisition Certification-Contracting Officer's Representative (FAC-COR) Program certified individuals reminding them of their responsibility to maintain adequate records of contract administration actions. The Department designated a contract file audit coordinator to manage the new file audit efforts. Desk Officers performed a contract file review at Baku, Yerevan, and Tbilisi to initiate the file audit program. In May 2014, the Department issued Procurement Information Bulletin No. 2014-10, <i>Contract Files</i> , to create new contract file audit requirements.
<b>Actions Remaining</b>	Contracting officers will be provided information on COR contract file deficiencies. This information may be used by contracting officers to determine the competency of CORs for appointment on their contracts. The Department will track significant failure of contracting officers and CORs to perform contract file duties and will use this information to determine appropriate remedies which may include additional oversight of the individual, remedial training, reduction of warrant level, suspension of warrant, or suspension of COR certification.
3. INFORMATION SECURITY AND MANAGEMENT	
<b>Challenge Summary</b>	<b>The Department continues to face difficulties meeting the requirements of the Federal Information Security Management Act of 2002.</b>
<b>Actions Taken</b>	The Department's information security program has benefited by a significant increase in funding and the recent addition of positions to address identified weaknesses. In response to an OIG request, the Department developed an information security Corrective Action Plan for 2014 with four goals aligned with six major goals. Substantial progress has been made in each area that not only includes improvements but also builds a foundation for additional gains in 2015. For example, during 2014, the Department's Sensitive but Unclassified and Secret general support systems, OpenNet and Classnet, completed assessment and were authorized to operate on March 31 and September 30, 2014, respectively.
<b>Actions Remaining</b>	The Department will leverage the investments and organizational changes to implement improvements in the Department's information security program, to include completion of ComplyVision (management software) integration for managing both Plans of Actions and Milestones and Systems Authorizations. Future efforts also include implementation of an enhanced component of ComplyVision to introduce scan results of network components gathered electronically.

4. FINANCIAL MANAGEMENT	
<b>Challenge Summary</b>	<b>Financial management continues to be a significant management challenge for the Department.</b>
<b>Actions Taken</b>	The Department received a clean ("unmodified") opinion from the external Independent Auditor on our 2013 Department-wide financial statements (in December 2013), including no reported material weaknesses in internal controls. In 2014, the Department sustained efforts to address and reduce weaknesses in financial reporting, property and equipment, budgetary accounting, unliquidated obligations, and information technology. For example, Bureaus are taking significant efforts to manage unliquidated obligations and we have reduced the extent of manual processes in our preparation of financial statements. The weakness related to retirement fund data was closed for 2014, and the Independent Auditor continues to provide an unmodified or "clean" opinion on our financial statements, clear of any material weaknesses. The Department conducted its assessment of internal controls over financial reporting in accordance with OMB Circular A-123 Appendix A and found them to be operating effectively resulting in an unqualified statement of assurance. We continue to bolster the Department's improper payments and recapture audit program, and in their 2013 annual assessment, the OIG found the Department's improper payments program to be in substantial compliance with IPIA.
<b>Actions Remaining</b>	The Department will continue efforts to address weaknesses in financial reporting, property and equipment, budgetary accounting, unliquidated obligations, and information technology.
5. MANAGING POSTS IN CONFLICT AREAS	
<b>Challenge Summary</b>	<b>Managing the civilian presences in Iraq and Afghanistan remains a major challenge for the Department.</b>
<b>Actions Taken</b>	The Department agrees that operating in high threat, high risk (HTHR) environments is dangerous, and that the Department must employ a separate check to ensure it is safe for employees to work in these locations. The Vital Presence Validation Process (VP2) was designed to support strategic decision-making regarding the overarching diplomatic presence in HTHR locations. For each HTHR post, we conduct a policy analysis outlining core national interests, risks, risk mitigation options, and resource constraints in order to determine whether it is in the United States' best interest to continue or restart operations. Through a VP2 analysis, we work to ensure the U.S. diplomatic presence at a HTHR post, at a strategic level, has a defined, attainable, and prioritized mission; a clear-eyed assessment of the risks and costs; a commitment of resources to mitigate risks; an explicit acceptance of un-mitigable costs/risks; and an awareness of when to leave and enable diplomacy from a distance.
<b>Actions Remaining</b>	The Department has completed VP2 analyses for five HTHR posts. An additional two analyses are in clearance at the highest levels of the Department, and analyses for another eight posts are currently underway. We expect to complete analyses on all 30 HTHR posts by April 2015. This will be an annual process, so VP2 analyses must be conducted on all HTHR posts every year. This process has been codified in the Foreign Affairs Manual.
6. RIGHTSIZING	
<b>Challenge Summary</b>	<b>During a number of inspections, OIG questioned the Department's rationale for maintaining embassies, consulates, and other diplomatic facilities in certain locations considering the cost-benefits and the security concerns.</b>
<b>Actions Taken</b>	The Department's rightsizing personnel work closely with Missions that exceed their own staffing projections over a five-year period of time, accounting for employed staff already in place. While rightsizing personnel constantly advocate for sensible and sustainable staffing growth at overseas missions, Chiefs of Mission hold ultimate responsibility for mission staffing levels.
<b>Actions Remaining</b>	The Department plans to begin work with Mission Kabul in late 2014 in expectation of submission of a rightsizing report by early 2015. This is being driven in part by the VP2 process and in part by recognition that there was little possibility of rightsizing Afghanistan in the uncertainty of troop levels and staffing. The Department is committed to producing a rightsizing review promptly.
7. FOREIGN ASSISTANCE COORDINATION AND OVERSIGHT	
<b>Challenge Summary</b>	<b>Coordinating foreign assistance programs among agencies, Department bureaus, and missions is a continuing challenge as is the proper design and oversight of Department-managed assistance programs.</b>
<b>Actions Taken</b>	The Department has coordinated a Foreign Assistance Data Review working group through the Enterprise Data Quality Initiative to clarify the needs of key stakeholders, develop a concept of operations for a data environment that meets those needs, and then define system requirements or changes as needed to achieve stated objectives.
<b>Actions Remaining</b>	The Foreign Assistance Data Review working group will clarify the needs of key stakeholders. The group will develop a concept of operations for a data environment and develop system requirements or changes as needed to achieve stated objectives.

8. CONSULAR OPERATIONS	
<b>Challenge Summary</b>	<b>Planning and preparing for continued growth in demand for consular services from both groups remains a challenge for the Department.</b>
<b>Actions Taken</b>	The protection of U.S. citizens abroad, national security, and the facilitation of legitimate travel to further U.S. economic prosperity remain high priorities. The Department's 1CA leadership and management initiative has empowered consular professionals worldwide to collaborate, share information, and develop solutions to operational challenges. For this reason, 1CA has transitioned from a temporary initiative and has been established as a permanent office. Hundreds of consular professionals have received classroom 1CA training on the Bureau's management framework and tools. In addition, over 3,000 individuals have been introduced to leadership, management, and innovation resources through a variety of mediums.
<b>Actions Remaining</b>	The Consular Consolidated Database (CCD) is a critical component of our operating capability and we are modernizing to improve system availability for the long term. The Department will upgrade the CCD to a newer version of the Oracle commercial database software by the second quarter of FY 2015. In conjunction with that software upgrade, we are installing new infrastructure and are building a robust redundancy to ensure the CCD's continuing functionality. This will protect against any issues with the primary system, as well as enable patching and other regular maintenance activities without system downtime.
9. LEADERSHIP	
<b>Challenge Summary</b>	<b>In FY 2014, inspectors identified leadership problems overseas and domestically.</b>
<b>Actions Taken</b>	The Department followed-up the 2013 pilot implementation of the Chief of Mission (COM) Survey with a worldwide distribution to 120 posts. Posts with COMs with less than six months of tenure in their positions were not surveyed. The instructions requested all direct hire American employees at post, including those from other agencies, to respond to the anonymous questionnaire. The Department achieved a 52 percent response rate. Aggregate and individual results have been accumulated. The Acting Director General has met with all Regional Bureau Assistant Secretaries to provide summary and individual results. The Department is examining developing a "resource" sheet for COMs who may wish to improve any areas of shortcoming.
<b>Actions Remaining</b>	The Department is developing a confidential electronic file for each subject COM, along with an overview letter, results explanation, and a resource sheet. The packages will be provided to each Regional Bureau Assistant Secretary to distribute in the manner they feel is most appropriate.
10. PUBLIC DIPLOMACY	
<b>Challenge Summary</b>	<b>The biggest challenge for public diplomacy is how to link programming to policy priorities.</b>
<b>Actions Taken</b>	The Department issued a comprehensive report in 2014 on Public Diplomacy and Strategic Communications. This report provides the strategic vision that will allow for enhanced links between programming and policy priorities. The Department has also begun a review utilizing a management consulting firm, already under contract within the Department, to provide an expert analysis and overview of the strategic Public Diplomacy agenda.
<b>Actions Remaining</b>	The Department will continue to enhance the role of program evaluations. Enhanced pre- and post- program evaluation will ensure resource allocation not only meet strategic needs but also help to measure effectiveness and viability of various programs and initiatives. In addition to an ongoing standardized data collection project, the Department as a whole will continue to update the Strategic Planning tools already being utilized domestically and overseas. These tools focus on strategic planning, program accountability, and resource tracking and reporting.

# Summary of Financial Statement Audit and Management Assurances

**A**s described in this report's section called Departmental Governance, the Department tracks audit material weaknesses as well as other requirements of the Federal Manager's Financial Integrity Act of 1982 (FMFIA). Below is management's summary of these matters as required by OMB Circular A-136, *Financial Reporting Requirements*, revised.

## SUMMARY OF FINANCIAL STATEMENT AUDIT

<b>Audit Opinion:</b>	<b>Unmodified</b>				
<b>Restatement:</b>	<b>No</b>				
MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	ENDING BALANCE
<b>Total Material Weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## SUMMARY OF MANAGEMENT ASSURANCES

MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
<b>EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)</b>						
<b>Statement of Assurance:</b> <b>Unqualified</b>						
<b>Total Material Weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)</b>						
<b>Statement of Assurance:</b> <b>Unqualified</b>						
<b>Total Material Weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)</b>						
<b>Statement of Assurance:</b> <b>Systems conform to financial management system requirements</b>						
<b>Total Non-conformances</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
AGENCY				AUDITOR		
<b>COMPLIANCE WITH SECTION 803(a) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)</b>						
<b>1. System Requirements</b>	No lack of substantial compliance noted			Lack of substantial compliance noted		
<b>2. Accounting Standards</b>	No lack of substantial compliance noted			No lack of substantial compliance noted		
<b>3. USSGL at Transaction Level</b>	No lack of substantial compliance noted			Lack of substantial compliance noted		

### DEFINITION OF TERMS

**Beginning Balance:** The beginning balance will agree with the ending balance of material weaknesses from the prior year.

**New:** The total number of material weaknesses that have been identified during the current year.

**Resolved:** The total number of material weaknesses that have dropped below the level of materiality in the current year.

**Consolidated:** The combining of two or more findings.

**Reassessed:** The removal of any finding not attributable to corrective actions (e.g., management has re-evaluated and determined a material weakness does not meet the criteria for materiality or is redefined as more correctly classified under another heading (e.g., section 2 to a section 4 and vice versa)).

**Ending Balance:** The agency's year-end balance.

# Improper Payments Information Act and Other Laws and Regulations

## IMPROPER PAYMENTS INFORMATION ACT, AS AMENDED

The Improper Payments Information Act of 2002 (IPIA), Public Law No. 107-300, requires agencies to annually review their programs and activities to identify those susceptible to significant improper payments, as well as to conduct payment recapture audit programs. During 2010, the President signed into law the Improper Payments Elimination and Recovery Act (IPERA, Public Law No. 111-204), which amends the Improper Payments Information Act of 2002, and repeals the Recovery Auditing Act (Section 831 of the 2002 Defense Authorization Act, Public Law No. 107-107). In January 2013, the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA, Public Law No. 112-248) was signed into law and further amended IPIA, though it was not required to be fully implemented until fiscal year 2014. Further references in this disclosure to the term IPIA will imply IPIA, as amended by IPERA and IPERIA. Most significantly, IPERIA expanded the term payment to refer to all payments except intragovernmental transactions. It also codified OMB's ongoing efforts to develop and enhance the government's Do No Pay Initiative, which included the creation of a centralized Do Not Pay List for agencies to access prior to disbursing payments.

IPIA defines significant improper payments as annual improper payments in a program that exceed both 1.5 percent of program annual payments and \$10 million, or that exceed \$100 million, regardless of the error rate. Once those highly susceptible programs and activities are identified, agencies are required to estimate and report the annual amount of improper payments. Generally, an improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, and administrative or other legally applicable requirement.

## IPIA, AS AMENDED, REPORTING DETAILS

The Department defines its programs and activities in alignment with the manner of funding received through Appropriations, as further subdivided into funding for operations carried out around the world. For example, the Embassy Security, Construction, and Maintenance Appropriation is comprised of several programs for Improper Payment reviews. Two examples include the Short-term Residential Lease and Construction programs. The Congressional Budget Justification represents the Department's annual funding request to the Congress and provides important information about the Department's programs and activities, organizational performance targets relating to the Department's Strategic Plan, and the resources needed to achieve the Department's performance goals.

Risk assessments over all programs are done every three years. In the interim years, risk assessments evaluating programs that experience any significant legislative changes and/or significant increase in funding will be done to determine if the Department continues to be at low risk for making significant improper payments at or above the threshold levels set by OMB. The Department conducted a risk assessment of all programs and activities in 2013. As such, 2014 is an interim year.

Risk assessments of programs and activities involve an evaluation of the risk factors described in OMB Circular A-123 Appendix C, as well as consideration of the work performed in compliance with OMB Circular A-123 Appendix A, internal Department information regarding the operation of programs and activities, results of audits performed by the Office of Inspector General, the GAO, the Special Inspector General for Afghanistan Reconstruction, and other relevant information. Based on this series of internal control review techniques performed in 2013, the Department determined that none of its programs were risk-susceptible for making significant improper payments at

OVERPAYMENTS RECAPTURED OUTSIDE OF PAYMENT RECAPTURE AUDITS						
Source of Recovery	Amount Identified (CY)	Amount Recovered (CY)	Amount Identified (PYs)	Amount Recovered (PYs)	Cumulative Amount Identified (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
CGFS Office of Claims (Vendor Payments)	\$4.9 million	\$5.9 million	\$37.9 million	\$35.9 million	\$42.8 million	\$41.8 million
CGFS Office of Claims (Employee Payments)	\$50.0 thousand	\$49.2 thousand	\$0	\$0	\$50.0 thousand	\$49.2 thousand
OIG	\$75.2 million	\$75.2 million	\$38.5 million	\$38.5 million	\$113.7 million	\$113.7 million
Annuity Payments	\$1.15 million	\$296 thousand	\$0	\$0	\$1.15 million	\$296 thousand

*CY=2014, PYs=2013 and earlier except for annuity and employee claims payments*

or above the threshold levels set by statute. This conclusion is still relevant throughout 2014. However, because the Department identified 14 programs that experienced significant increases in funding and/or changes in legislation since the full risk assessment took place, the Department performed internal control techniques consistent with the prior year on these 14 programs. Based on these procedures as well as those performed on all programs in 2013, the Department determined that none of its programs in 2014 were risk-susceptible for making significant improper payments at or above the threshold levels set by OMB.

## RECAPTURE OF IMPROPER PAYMENTS REPORTING

A number of improper payment activities, both preventative and recovery, exist for domestic and overseas payments at the Department, Bureau, post, and program levels to support IPIA efforts and ensure the integrity and accuracy of Department payments. The Bureau of the Comptroller and Global Financial Services (CGFS) has a two-tiered improper payment monitoring and review program that consists of activity performed by the Office of Claims (OC) and the Office of Oversight and Management Analysis (OMA). Improper payment reviews are performed initially by OC as an integral part of our post-payment review process, and secondly by OMA. While many agencies hire external recapture auditors to perform a secondary review, this function is performed more efficiently within the Department by OMA. Because the activity performed by OC is a post-payment (versus recapture payment) review process, those results are not considered recapture audits and are considered an activity outside of recapture audits. Because the OMA activity is secondary

and consistent with a function that an external auditor would perform, for reporting purposes the OMA's activity is considered recapture. In addition, in 2014 CGFS Retirement Accounts Division (RAD) began reporting identified and confirmed overpayments as required by IPIA.

### *Overpayments Recaptured Outside of Payment Recapture Audits*

Improper payment identification and collection are essential functions of the accounts payable process and the paying office's operations. As such, OC has established an internal debt management unit, whose primary mission is to identify and collect improper payments. Historically, this activity represented the majority of the Department's recapture results. However, starting in 2011, based on the revised IPIA guidance from OMB, this activity is classified and reported as overpayments recaptured outside of recapture payment audits activity. OC results represent the majority of the \$41.1 million amounts shown as prior years' activity in the table entitled Payment Recapture Audit Reporting, while activity since 2011 has accumulated in the table entitled Overpayments Recaptured Outside of Payment Recapture Audits.

During 2014, OC's efforts identified and confirmed transactions totaling \$4.9 million of actual duplicate/ improper payments, of which we recovered \$4.6 million, in addition to collecting \$1.3 million of the prior year unrecovered balance of \$1.9 million. Thus, total amounts recovered in 2014 (i.e. current year) were \$5.9 million. At the end of FY 2014, the Department has collected all but \$355 thousand of the current year identified amount and \$637 thousand of the prior years' identified amount, resulting

PAYMENT RECAPTURE AUDIT REPORTING (COMBINED PROGRAM OR ACTIVITY <sup>1</sup> )								
Type of Payment	Amount Subject to Review for Reporting (CY)	Actual Amount Reviewed and Reported (CY)	Amount Identified for Recovery (CY)	Amount Recovered (CY)	% of Amount Recovered out of Amount Identified (CY)	Amount Outstanding (CY)	% of Amount Outstanding out of Amount Identified (CY)	Amount Determined Not to be Collectable (CY)
Contracts	\$11.5 billion	\$10.2 billion	\$39,464	\$38,262	97%	\$1,202	3%	\$0
Employee Claims <sup>2</sup>	\$192.1 million	\$7.8 million	\$16,476	\$7,241	44%	\$9,235	56.1%	\$0

PAYMENT RECAPTURE AUDIT REPORTING (COMBINED PROGRAM OR ACTIVITY <sup>1</sup> ) (continued)							
Type of Payment	% of Amount Determined Not to be Collectable out of Amount Identified (CY)	Amounts Identified for Recovery (PYs)	Amounts Recovered (PYs)	Cumulative Amounts Identified for Recovery (CY + PYs)	Cumulative Amounts Recovered (CY + PYs)	Cumulative Amounts Outstanding (CY+PYs)	Cumulative Amounts Determined Not to be Collectable (CY+PYs)
Contracts	0%	\$41.1 million	\$41.1 million	\$41.2 million	\$41.2 million	\$1,202	\$0
Employee Claims	0%	\$0	\$0	\$16,476	\$7,241	\$9,235	\$0

CY=2014, PYs=2013 and earlier

<sup>1</sup> Represents the collective amounts reviewed, identified, and recovered. The CY amounts identified and recovered are shown by individual program in the following three tables.

<sup>2</sup> Administratively for Employee Claims the reporting period was April 1, 2013 to March 31, 2014.

in the cumulative outstanding balance of approximately \$1 million. Also, in 2014 the Department identified and confirmed employee claims transactions totaling \$50 thousand of actual overpayments, of which we recovered \$49.2 thousand. Thus, \$800 remains to be collected in the upcoming fiscal year. As presented in the table entitled Overpayments Recaptured Outside of Payment Recapture Audits, in 2014 the Department's CGFS Retirement Account Division (RAD) identified and confirmed overpayment transactions totaling \$1.15 million, of which \$296 thousand has been recovered. At times, recovery can be delayed due to a debtor's request for an administrative review. The Department will continue efforts to collect the remaining 2014 unrecovred balance of \$854 thousand. These overpayments occur for various reasons such as annuity reduction due to divorce, annuitant re-employment, and untimely notification of death. Since implementing the Do Not Pay Initiative requirements, RAD continues the use of the Do Not Pay Death Master File (DMF) on a pre-payment basis to better identify when annuitant deaths occur. This and other internal controls greatly assist RAD in preventing and managing improper payments.

Additionally, the Office of Inspector General conducted investigations spanning a breadth of content, including fraud, embezzlement, bribery and kickbacks, false statements, and employee misconduct. Recoveries obtained as a result of OIG investigations are also presented in the table entitled Overpayments Recaptured Outside of Payment Recapture Audits.

### ***Payment Recapture Audit Reporting***

CGFS incorporates various manual and automated data analysis techniques and processes to identify, validate and collect improper payments, including use of data mining software, manual sampling of internal payment records, U.S. Treasury taxpayer identification number matching, and sampling of vendors. Monthly, OMA conducts a query of domestic vendor payments. These payments represent the largest category of Department-made payments subject to IPIA recapture audit requirements, focusing on identifying potential improper and duplicate payments. Currently, these payments are reviewed on a monthly basis using IDEA - Data Analysis Software. An automated analysis is executed to run matches of vendor invoice numbers and payment

PAYMENT RECAPTURE AUDIT TARGETS							
Program or Activity	Type of Payment	CY Amount Identified	CY Amount Recovered	CY Recovery Rate (Amount Recovered / Amount Identified)	CY + 1 Recovery Rate Target	CY + 2 Recovery Rate Target	CY + 3 Recovery Rate Target
Diplomatic policy and support	Contract	\$11,557	\$11,557	100%	100%	100%	100%
Public diplomacy	Contract	\$25,680	\$25,680	100%	100%	100%	100%
ICASS	Contract	\$1,025	\$1,025	100%	100%	100%	100%
Worldwide Security Protection	Contract	\$1,202	\$0	0%	90%	100%	100%
Machine Readable Visa	Employee Claim	\$1,538	\$1,538	100%	100%	100%	100%
Worldwide Security Protection	Employee Claim	\$1,790	\$986	55%	90%	100%	100%
Other Diplomatic	Employee Claim	\$1,909	\$1,303	68%	90%	100%	100%
Residential Lease	Employee Claim	\$389	\$389	100%	100%	100%	100%
ICASS	Employee Claim	\$7,925	\$100	1%	90%	100%	100%
Overseas	Employee Claim	\$2,193	\$2,193	100%	100%	100%	100%
Diplomatic policy and support	Employee Claim	\$526	\$526	100%	100%	100%	100%
Public diplomacy	Employee Claim	\$206	\$206	100%	100%	100%	100%

AGING OF OUTSTANDING OVERPAYMENTS				
Program or Activity	Type of Payment	CY Amount Outstanding (0-6 months)	CY Amount Outstanding (6 months to 1 year)	CY Amount Outstanding (over 1 year)
Worldwide Security Protection	Contract	\$1,202	\$0	\$0
Worldwide Security Protection	Employee Claim	\$804	\$0	\$0
Other Diplomatic	Employee Claim	\$606	\$0	\$0
ICASS	Employee Claim	\$7,825	\$0	\$0

DISPOSITION OF RECAPTURED FUNDS							
Program or Activity	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury
Diplomatic policy and support	Contract	\$0	\$0	\$0	\$11,557	\$0	\$0
Public diplomacy	Contract	\$0	\$0	\$0	\$25,680	\$0	\$0
ICASS	Contract	\$0	\$0	\$0	\$1,025	\$0	\$0
Machine Readable Visa	Employee Claim	\$0	\$0	\$0	\$1,538	\$0	\$0
Worldwide Security Protection	Employee Claim	\$0	\$0	\$0	\$986	\$0	\$0
Other Diplomatic	Employee Claim	\$0	\$0	\$0	\$1,303	\$0	\$0
Residential Lease	Employee Claim	\$0	\$0	\$0	\$389	\$0	\$0
ICASS	Employee Claim	\$0	\$0	\$0	\$100	\$0	\$0
Overseas	Employee Claim	\$0	\$0	\$0	\$2,193	\$0	\$0
Diplomatic policy and support	Employee Claim	\$0	\$0	\$0	\$526	\$0	\$0
Public diplomacy	Employee Claim	\$0	\$0	\$0	\$206	\$0	\$0

amounts against current payment data and payments dating back to 2007. In addition to the automated IDEA analysis, in 2014 OMA expanded the manual quarterly Prompt Payment review of overseas payments to include domestic payments. These manual recapture audits validate elements such as vendor, payment amount, and ensure proper documentation exists to support sampled payments.

In 2014, OMA identified \$16.4 thousand in employee claims recapture audit overpayments, of which \$7.2 thousand was recovered. Thus, an outstanding balance of \$9.2 thousand remains unrecovered for employee claims recapture audit activity. Collection efforts will continue on this balance as these accounts are aged less than one year. In addition, in 2014 OMA further expanded recapture efforts to include annuity payments. OMA focused its efforts reviewing annuitant payments that are calculated based on certain eligibility requirements. Specifically, OMA initiated a pilot recapture audit of payments to surviving children of annuitants requiring verification of school enrollment for payment. Regarding grant payments, each year the Department closely monitors activity of grantees of which the Department is the designated Federal Cognizant Agency, including follow-up with grantees regarding any disallowed costs identified on the grantees audit reports issued in compliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. During 2014, OMA initiated a review of grant payments data made on behalf of the Department by the Department of Health and Human Services through their Payments Management System for inclusion in our recapture audit activity. Though grant payments are not currently included in the automated analysis using IDEA due to system and data limitations, OMA will continue to develop review techniques for grant payments in 2015.

Beginning in 2011, this activity represents the Department's recapture results, pursuant to revised IPIA guidance from OMB, as the Department concluded only this internal activity fits the definitions and purpose of the IPIA Recapture Audit program requirements. These results are presented in the table entitled Payment Recapture Audit Reporting.

For 2014, a total of \$11.5 billion, comprised of \$10.4 billion in domestic vendor payments and \$1.1 billion in overseas vendor payments, were subjected to recapture audits. Of those amounts, domestic vendor payments totaling \$10.4 billion

and overseas payments totaling \$183.8 million were reviewed, resulting in the identification of 7 transactions totaling \$39,464 as improper payments (that are not duplicative of the results first identified by the Office of Claims). The Department has collected \$38,262 of the current year identified amount, resulting in a recovery rate of 97 percent. In addition, for 2014, \$192.1 million in employee claims were subjected to recapture audits. Administratively, we report as 2014 the period of April 1, 2013 to March 31, 2014. Of that amount, \$7.8 million were reviewed, resulting in the identification of 33 transactions totaling \$16,478 as improper payments. The Department has collected \$7,241 of the current year identified amount, resulting in a recovery rate of 43.9 percent. The recaptured funds for both vendor and employees improper payments collected were returned to the originating appropriation. The Department performs analysis to determine the cause of improper payments and has determined the primary reasons are linked to vendor billing issues and initial approval for payment. Increased quality control processes by OC in both the payment generation and internal post-payment review processes have contributed to lower improper recapture audit amounts. Specifically, the majority of improper payments identified through recapture audits has already been identified by the Office of Claims, and as such, are reported in the Overpayments Recaptured Outside of Payment Recapture Audits table.

The CGFS automated duplicate or improper payment program using the domestic payment file for recapture audit analysis has proven to be a cost effective tool. The domestic file presently includes the majority of payments subject to IPIA requirements, such as domestic vendor payments. In 2005 and 2006, the Department contracted with an external firm to perform recapture audit activities. However, after 2006, the contracted firm determined it was not cost-effective to continue this function. CGFS realizes that additional recapture audit opportunities may exist and will continue to collectively assess areas of greater risk of improper and improper payments and implement recapture audit measures deemed cost-effective.

#### ***Agency Reduction of Improper Payments with the Do Not Pay Initiative***

In 2014 the Department continued to utilize the Do Not Pay (DNP) initiative's Social Security Administration Death

Master File (DMF) on a pre-payment continuous monitoring basis for all annuitant payments. At least twice each month, prior to processing the annuity roll, the Department's annuitant database is screened against the DMF to identify deceased annuitants. All matches are researched and if confirmed, payment to the annuitant is stopped prior to the monthly annuity payment run. In 2014, 187 thousand payments totaling \$904.3 million were reviewed against the DMF and 128 payments totaling \$481 thousand were stopped due to this internal agency initiative. This process has been successful in timely identifying deceased annuitants and ensuring these improper payments are not made. In addition, all annuity manual payments processed through Treasury's Secure Payment System are also reviewed through the Do Not Pay DMF online search prior to making the payment. For each manual payment, the Department maintains supporting documentation to show that a DMF match did not occur.

The Department also reviewed Do Not Pay potential erroneous payments provided by Treasury on a monthly basis. The Department was provided potential matches from Treasury disbursed payments which were adjudicated and results were reported to Treasury. During 2014, the Department adjudicated potential payment file matches from July 2013 through June 2014 totaling 1.6 million payments with a grand total of \$10.4 billion. Two lists of potential matches were provided, one list comparing payments to the public Death Master File (DMF) of the Social Security Administration and one list comparing payments to General Services Administration's public Excluded Parties List System (EPLS). The DMF results were based on a social security number match of any payees who have been reported as

deceased. During 2014, the Department received 39 potential erroneous payment matches to the public DMF file totaling \$99 thousand. These payments were reviewed and all were deemed to be rightfully due to the deceased's estate. The EPLS results were a match of only the first and last name of the payee to the EPLS list. Since the Department was not able to obtain private EPLS list access during 2014, non-employee payments, in which a social security number or tax identification number was provided, were verified by researching the List of Excluded Individuals/Entities (LEIE) of the Office of Inspector General of the Department of Health and Human Services. Employees of the Department are subject to continuous monitoring to verify they are not included on the Excluded Parties List in order to maintain clearance levels and therefore, all payments to employees were considered valid. Potential matches which did not contain a social security number or tax identification number were sampled. All samples were fee refunds, thus not federally funded and considered valid. During 2014, the Department received 35,642 potential erroneous payment matches to the public EPLS file totaling \$134.5 million. No erroneous payments were identified with this adjudication.

With the deployment of the upgraded Do Not Pay database, the Department will be provided potential DMF and EPLS matches on a daily basis. The EPLS results will be based on the private EPLS which will include a match on social security number or tax identification number. This change will provide more validity to the potential matches received for adjudication. The Department plans to adjudicate these potential matches daily which will aid in the effort to recapture payments on a timely basis. Also, the Department has been working with Treasury and the Federal Reserve

IMPLEMENTATION OF THE DO NOT PAY INITIATIVE TO PREVENT IMPROPER PAYMENTS						
	Number (#) of Payments Reviewed for Improper Payments	Dollars (\$) of Payments Reviewed for Improper Payments	Number (#) of Payments Stopped	Dollars (\$) of Payments Stopped	Number (#) of Improper Payments Reviewed and Not Stopped	Dollars (\$) of Improper Payments Reviewed and Not Stopped
Annuity payment reviews with the DMF only	187 thousand	\$904.3 million	128	\$481 thousand	0	0
Treasury provided reviews with the DMF only <sup>1</sup>	1.6 million	\$10.4 billion	0	0	0	0
Reviews with other databases <sup>2</sup>	1.6 million	\$10.4 billion	0	0	0	0

*CY=2014, PYs=2013 and earlier*

<sup>1</sup> Treasury provided reviews include payments from July 2013 through June 2014.

<sup>2</sup> Reviews with other databases includes EPLS.

Bank to validate all active vendors in the Global Financial Management System with the DNP database on a periodic basis to identify 'Do Not Pay' vendors before payments are executed.

For non-Treasury disbursements, certifying officers verified payee information against the Office of Foreign Assets Control's (OFAC) list of Specially Designated Nationals (SDN). Also, during country integration to the Society of Worldwide Interbank Financial Telecommunication network the Department provided vendor lists associated with the given country to the Federal Reserve Bank. The Federal Reserve Bank verified none of the listed vendors were included on the OFAC's SDN list. Furthermore, each non-Treasury disbursement payment batch was verified against OFAC's SDN list before being sent to the intermediary bank and before the intermediary bank transferred the funds to local bank.

## SENSITIVE PAYMENTS

The Department does not have programs determined risk-susceptible for making significant improper payments at or above the threshold levels set by OMB. However, in addition to the required annual IPIA reviews, Departments are also encouraged to conduct reviews of programs and activities that are prone to misinterpretation or misapplication of Federal guidelines and various sensitive payment areas. Sensitive payments are those where the dollar amounts involved are usually not significant, but the public disclosure of improper payments may result in significant criticism of the agency. The Department has identified several areas of sensitive payments for review. They include: Premium Class Travel, Executive Compensation, Representation Costs, Speaking Honoraria and Gifts, and Executive Perquisites. In past years, the American Recovery and Reinvestment Act payments were among those that were carefully reviewed. Premium Class Travel payments are reviewed annually, and the other areas are reviewed on a rotating schedule depending on their level of risk and sensitivity.

## Premium Class Travel Reviews

The Department's mission is conducted throughout the world and requires extensive travel, sometimes of a significant duration. Because of the high volume of travel, the Department has made concerted efforts to monitor if official travel has adhered to Government-wide and Department regulations for premium class travel.

The Department selected a random sample and supporting documentation was reviewed. During 2014, there have been no instances where evidence was found that a business class travel payment was unapproved and needed to be recovered, or where the travelers flying business class were found to be ineligible. However, there have been instances where proper supporting documentation was not readily available. Those errors represent an error rate of 12 percent (\$54,885) in 2014 and 8 percent (\$56,442) in 2013. OMB requires agencies to report improper payment errors based on three categories of errors: documentation and administrative errors, authentication and medical necessity errors, and verification errors. All Department errors found each year were attributable to documentation and administrative errors. During 2015, the Department will undertake efforts to correct the deficiencies noted during the 2014 review.

## FEDERAL CIVIL PENALTIES INFLATION ADJUSTMENT ACT

The Federal Civil Penalties Inflation Adjustment Act of 1990 established annual reporting requirements for civil monetary penalties assessed and collected by Federal agencies. The Department assesses civil fines and penalties on individuals for such infractions as violating the terms of munitions licenses, exporting unauthorized defense articles and services, and valuation of manufacturing license agreements. In 2014, the Department assessed \$30 million in new penalties against two companies, and collected \$39.4 million of outstanding penalties from seven companies. In addition, the total outstanding balance due was reduced by \$23.6 million as a result of adjustments associated with remedial compliance measures. The balance outstanding at September 30, 2014, was \$25 million.

## DEBT MANAGEMENT

Outstanding debt from non-Federal sources (net of allowance) decreased from \$81.3 million at September 30, 2013 to \$48.1 million at September 30, 2014. Civil Monetary Penalties decreased by \$33 million at September 30, 2014, resulting in a decrease overall to the non-Federal source figures.

Non-Federal receivables consist of debts owed to the International Boundary and Water Commission, Civil Monetary Fund, and amounts owed for repatriation loans, medical costs, travel advances, and other miscellaneous receivables.

The Department uses installment agreements, salary offset, and restrictions on passports as tools to collect its receivables. It also receives collections through its cross-servicing agreement with the Department of the Treasury (Treasury). In 1998, the Department entered into a cross-servicing agreement with Treasury for collections of delinquent receivables. In accordance with the agreement and the Debt Collection Improvement Act of 1996 (Public Law 104-134), the Department referred \$2.5 million to Treasury for cross-servicing in 2014. Of the current and past debts referred to Treasury, \$1.1 million was collected in 2014.

### Receivables Referred to the Department of the Treasury for Cross-Servicing

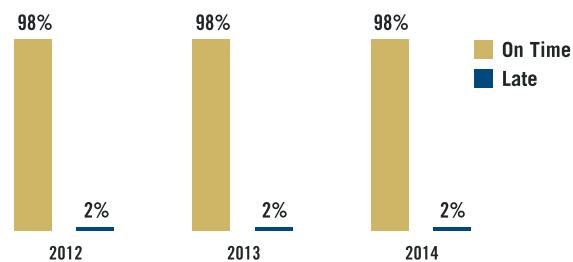
	2014	2013	2012
Number of Accounts	997	1,189	1,189
Amounts Referred ( <i>dollars in millions</i> )	\$2.5	\$2.8	\$3.6
Amounts Collected ( <i>dollars in millions</i> )	\$1.1	\$1.1	\$0.9

## PROMPT PAYMENT ACT

### TIMELINESS OF PAYMENTS

The Prompt Payment Act (PPA) requires Federal agencies to pay their bills on time. PPA assesses an interest penalty against Federal agencies that do not pay their vendors timely as required by law. In 2014, the Department timely paid over 98 percent of the 549,798 payments subject to PPA regulations. The following chart reflects the timeliness of the Department's payments from 2012 through 2014. During 2014, the Department paid \$281 thousand in interest penalties, compared to \$226 thousand in 2013, a 24 percent increase. A major contributing factor to the increase in interest penalties was the high staff turnover involved in the invoice certification process during a four-month period.

### TIMELINESS OF DOS PAYMENTS (2012 - 2014)



## ELECTRONIC PAYMENTS

The payments made through Electronic Funds Transfer (EFT) were over 98 percent of the total payments made for domestic and overseas payments. Domestic operations accomplished over 98.8 percent of its payments with EFT this year. Overseas operations have a slightly lower EFT percentage (97.7 percent) than domestic operations due to the complexities of banking operations in some foreign countries. For 2014, approximately 3.5 million payments were disbursed for the Department of State.

# Financial Management Systems Summary

## INTRODUCTION

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The financial activities of the Department of State (the Department or DOS) occur in approximately 270 locations in 180 countries. We conduct business transactions in over 135 currencies and even more languages and cultures. Hundreds of financial and management professionals around the globe allocate, disburse, and account for billions of dollars in annual appropriations, revenues, and assets. Among the Department's customers are 45 U.S. Government agencies in every corner of the world, served 24 hours a day, seven days a week.

The Department's efforts are guided by two overarching goals: providing world-class financial services that support strategic decision-making, mission performance, and improved accountability and transparency to the American people; and supporting the achievement of the agency's strategic goals by enabling interagency planning and coordination. Performance measures related to these goals include timely financial reporting, elimination of material weaknesses in internal control, the achievement of unmodified ("clean") audit opinions, elimination of improper payments, and implementing resource management systems and processes that meet Federal requirements. In addition, the Department endeavors to consolidate and standardize financial operations, leverage best business practices and electronic technologies, and build a first-rate finance team.

The nonprofit independent firm that conducts the Department's annual survey of overseas users of resource management systems is one of the leading proponents of benchmarking and best practices in business research. The firm noted that the Department's Bureau of the Comptroller and Global Financial Services (CGFS) set its overall performance target for customer satisfaction at 80 percent for all services, a goal considerably higher than what many Government agencies and private sector financial institutions

achieve. Not only has CGFS set such high goals, it has consistently surpassed these marks for overall satisfaction and satisfaction with the majority of its individual applications.

Continued standardization and consolidation of financial activities and leveraging investments in financial systems to improve our financial business processes will lead to greater efficiencies and effectiveness. A key element to achieve improved efficiencies and controls in our financial management processes will be our efforts to standardize financial business processes and consolidate financial services. This change is not always easy with the decentralized post-level financial services model that exists for the Department's worldwide operations. In addition, over the next several years, we will need to leverage upgrades in our core financial system software, new locally employed (LE) staff and American payroll and time and attendance (T&A) deployments, new cashiering system deployment and integrations/interfaces with other Department corporate systems to improve our processes in ways that better support financial operations.

We have made significant progress in modernizing and consolidating Department resource management systems. CGFS' financial systems development activities are now operated under Capability Maturity Model Integration (CMMI) industry standards. Whenever consistent with business owner requirements, we aim to make use of proven commercial off-the-shelf (COTS) software in designing and developing software solutions. We have pushed to consolidate Department resource systems to the CGFS platform with the goals of meeting user requirements, sharing a common platform and architecture, reflecting rationalized standard business processes, and ensuring secure and compliant systems. OMB has reviewed our core financial systems plans as part of their U.S. Government-wide review of major financial system investments. OMB approved our investment

path and segmented delivery approach. We have embarked on a multi-year effort to consolidate resource management systems to CGFS, specifically within the Global Financial Management Systems Directorate. This includes budget systems such as the Bureau of Budget and Planning's (BP) Central Resource Management System (CRMS) and Budget Resource Management System, International Cooperative Administrative Support Services (ICASS), and Resource Allocation and Budget Integration Toolkit (WebRABIT), which were developed independently in past years. We expect our financial systems to meet user and Federal requirements, share a common platform and architecture, reflect rationalized standard business processes, and be developed using CMMI. By managing the process in these ways we can deliver products that are compliant, controlled, and secure.

OMB continues its initiative to standardize Government-wide business processes to address the Federal Government's long-term need to improve financial management and assist agencies in substantially complying with the Federal Financial Management Improvement Act (FFMIA). Also, over the next several years, a number of new Federal accounting and information technology standards, many driven by the Department of Treasury, will become effective. These include Government-wide projects to standardize business requirements and processes, establish and implement a Government-wide accounting classification, and support the replacement of financial statement and budgetary reporting. The Department's implementation of new standards and Government-wide reporting will strengthen both our financial and information technology management practices.

The Department uses multiple financial management systems that are critical to effective agency-wide financial management, financial reporting, and financial control. These systems are included in various programs. An overview of these programs follows.

## **FINANCIAL SYSTEMS PROGRAM**

The financial systems program includes the Global Financial Management System (GFMS), the Regional Financial Management System (RFMS), and the Consolidated Overseas Accountability Support Toolbox (COAST).

***The Global Financial Management System.*** GFMS centrally accounts for billions of dollars recorded through over 5 million annual transactions by more than 1,000 users and over 25 "handshakes" with other internal and external systems. GFMS is critical to the Department's day-to-day operations. It supports the execution of DOS' mission by effectively accounting for business activities and recording the associated financial information, including obligations and costs, performance, financial assets, and other data. It supports the Department's domestic offices and serves as the agency's repository of corporate data.

During 2014, GFMS was updated to meet new Government-wide Accounting (GWA) Treasury reporting requirements. GWA is a series of Treasury initiatives to improve the timeliness and accuracy of Government financial reporting by classifying cash balances at the time of submission of Intragovernmental Payment and Collection (IPAC), payment, and collection files. Changes were made to GFMS to generate the Treasury Business Event Type Code and Component Treasury Account Symbol on payment files. New business procedures were established to ensure IPAC and collection transactions are recorded to match Treasury records along with new reclassification procedures to update Treasury balances.

***The Regional Financial Management System.*** RFMS is the global accounting and payment system that has been implemented for posts around the world. RFMS includes a common accounting system for funds management, and obligation and voucher processing. In 2014, CGFS continued a multi-year project to update RFMS to the newest release. The RFMS update is scheduled for an FY 2015 second quarter implementation.

To further improve controls and the accuracy of financial transactions that reference funding across our regional and domestic systems, the Department initiated a multi-phase Virtual Merge project to provide real time integration between GFMS and RFMS. This integration will ensure timely recording of fiscal data and funds availability checks, increase operational efficiency by avoiding costly rework generated by rejected transactions, and improve the accuracy of financial reporting.

The first phase of this project integrated GFMS with RFMS/Momentum (RFMS/M) for invoices, payments, and disbursements to other agencies (e.g., General Services Administration) processed in GFMS against overseas allotments. The second phase integrates GFMS contracts/delivery orders referencing overseas funding. As transactions are entered in GFMS, real time processing occurs in RFMS/M to record obligations in RFMS. If the RFMS obligation does not process (e.g., insufficient funds availability), the GFMS contract/delivery order will not process. The Charleston Administration group, Mexico City, and Bogota are operational for the contract obligation service with other posts being scheduled for rollout in 2015.

The Department is also implementing integration improvements between RFMS and Ariba, the market dominant COTS procurement platform. When a requisition is approved in Ariba, a commitment transaction will automatically be recorded in RFMS. When a purchase order is approved in Ariba, an obligation transaction will automatically be recorded in RFMS eliminating duplicate data entry. This integration is planned to start rollout in 2015 after the RFMS update.

#### ***The Consolidated Overseas Accountability Support***

**Toolbox.** COAST is an application suite deployed to more than 180 posts around the world as well as to Department of State and other agency headquarters offices domestically. COAST captures and maintains accurate, meaningful financial information, and provides it to decision makers in a timely fashion. The current COAST suite consists of COAST Reporting, COAST Encryption, COAST Cashiering, and COAST Payroll Reporting.

COAST Cashiering is replacing the legacy Windows Automated Cashiering System (WinACS). It improves on the core functionality of WinACS by including improved security for cashiering activities. These enhancements will bring about greater adherence to the Department's Foreign Affairs Manual and Foreign Affairs Handbook regulations and give financial management officers overseas greater controls. The global deployment of COAST Cashiering is ongoing. COAST Cashiering has been successfully deployed by 210 cashiers at 113 posts at the close of FY 2014.

Deployment to additional posts will continue in FY 2015.

#### **PLANNING AND BUDGET PROGRAM**

In 2014, the Department began the Budget System Modernization (BSM) project to standardize, consolidate, and simplify the budgeting systems currently used. Requirements gathering began with a focus on replacing CRMS, a legacy system that dates from 1999. Other budget systems are the WebRABIT and ICASS systems identified earlier.

CRMS processes apportionments, warrants, non-expenditure transfers, fund allocations, and reimbursement agreements, which are interfaced into the Department's accounting system. It is used by all bureaus and missions to receive allotment notifications. BP uses the system for financial planning of the Department's operating accounts. In 2014, compliance with the controls established in National Institute of Standards and Technology's Special Publication 800-53 Revision 4, Security and Privacy Controls for Federal Information Systems and Organizations, was improved. For 2015, only those changes absolutely necessary to maintain the system until retirement will be undertaken.

WebRABIT is an application used by all the regional bureaus for program and public diplomacy execution year budgets at their posts. In 2014, new functionality was successfully used to plan overseas mission out-year budget requests. In 2015, planned enhancements include improved security controls and budgeting at the level of the posts within an overseas mission. Further changes will be considered in light of the expected retirement of the system with future phases of BSM.

The ICASS or WebICASS system is the principal means by which the U.S. Government shares the cost of common administrative support at its more than 270 diplomatic and consular posts overseas. The Department has statutory authority to serve as the primary overseas service provider to other agencies. In 2014, CGFS deployed new software that transitions to a centrally hosted system. This new software will cost less to maintain than the older distributed software. Only the budgeting portion of WebICASS will be considered for possible inclusion in BSM. The workload count and cost distribution portions of WebICASS are out of scope for the BSM project.

## TRAVEL PROGRAM

The E-Gov Travel Service (ETS1) is a Government-wide, web-based, world-class travel management service, launched in 2003 to save significantly on costs and to improve employee productivity. It serves as the gateway to optimize the Government's scale and full market leverage to lower travel costs. ETS serves as the backbone of GSA's managed travel programs providing access to air, car, and lodging as well as the foundation for implementing a shared service for civilian agency travel management.

Prior to 2014, the Department focused on evolutionary changes to its web-based COTS software that improves the user interface and incorporates additional Department requirements in the COTS package. At the start of FY 2014, all domestic bureaus and 180 posts were able to use the ETS system to facilitate the Department's international and domestic travel.

Currently, the Department is preparing for the migration to ETS2 in a move that will advance our commitment to cloud-based computing and further institutionalize proven best practices built upon the use of employee self-service capabilities such as online booking; electronic routing capabilities which support complex approval processes in an efficient manner; and automated interfaces with three distinct Department of State financial systems to ensure more accurate and timely employee reimbursements (of out-of-pocket travel expenses).

## GRANTS PROGRAM

OMB's line of business initiative seeks to cut costs and improve service by consolidating computer networks and functions into a few agencies that act as service providers to other agencies. As part of this process, the Department continued to make significant progress migrating to a Grants Management Line of Business solution in 2014. Implementation of the Department of Health and Human Services' GrantSolutions system as the single, standard system at the Department will replace the collection of separate, stovepipe Federal assistance systems used across the agency. Internally, we refer to this system as the State Assistance Management System (SAMS).

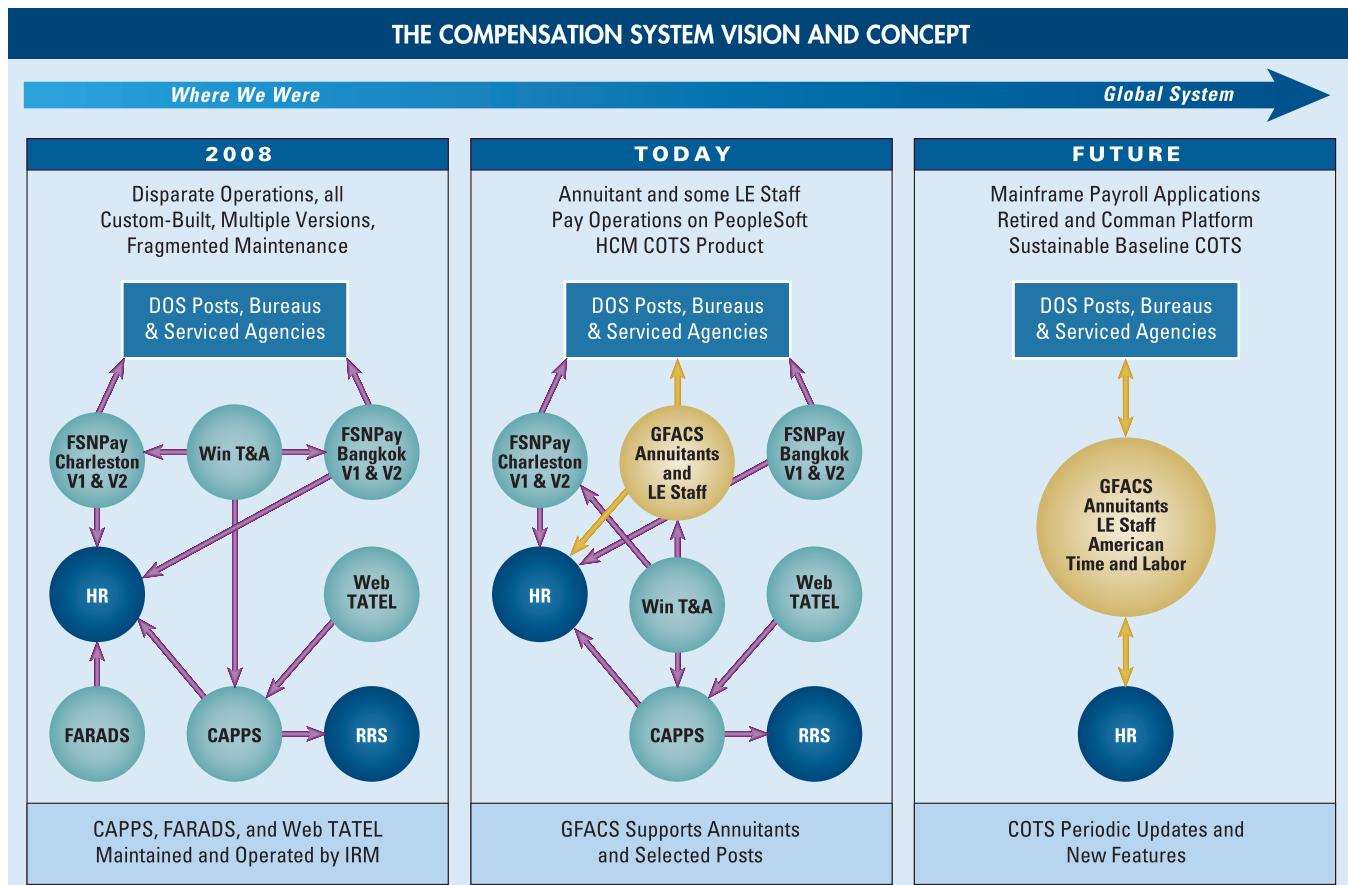
During 2014, the Department completed the deployment of SAMS to all domestic bureaus. We now have a single, automated system for domestic grants that is integrated with the GFMS. SAMS standardizes the Department's assistance-related business process from solicitation through award and close-out thereby ensuring a high degree of consistency and manageability. A Department-wide deployment brings about compliance with key U.S. Government initiatives such as Grants.gov and reporting requirements such as the Federal Funding Accountability and Transparency Act of 2006 and the Federal Assistance Award Data System.

During 2014, analysis was conducted on the proper capture and reporting for the Federal Award Identification Number (FAIN). The Department's financial management systems and reporting systems were reviewed and decisions made on all of the interfacing and online processes that would need to be updated to record the FAIN value both in our domestic and overseas systems. The reporting applications for both were also analyzed to determine the processes to load this field and the reports that needed to include this field. Design updates were completed for the domestic applications in 2014. Design updates for the overseas applications will be completed in 2015. Implementation of the updates for FAIN will be completed for domestic and overseas applications in FY 2015.

Requirements analysis for the overseas use of SAMS began in 2014 followed by briefings with Department management. Decisions will be made in 2015 on the direction that will be taken to support overseas grant processing and management.

## COMPENSATION PROGRAM

The Department continued to execute a phased deployment strategy as depicted in the following diagram that, when completed, will completely replace eight legacy payroll systems with a single, COTS-based solution better suited to address the widely diverse requirements of the Department and the other 45 civilian agencies that rely on the Department for overseas payroll. Not only will the Global Foreign Affairs Compensation System (GFACS) address common requirements in a more consistent and efficient manner, it will leverage a rules-based, table-driven architecture to promote compliance with the sometimes varying statutes found across the Foreign and Civil Service



Acts and, perhaps more importantly, the local laws and practices applicable to the many countries in which civilian agencies operate.

The GFACS LE staff payroll module was initially implemented in December 2012 with Guatemala as the first converted country. During CY 2014, 89 of the 186 countries will have been converted. The Department plans to have all countries converted to GFACS by the end of FY 2016.

The GFACS Annuitants payroll module was implemented in December 2010. By the end of calendar year 2014, twelve releases will have been implemented to capture tax and other interim changes.

The last pay module to be implemented in GFACS is American payroll. It is currently scheduled for full implementation in the latter half of CY 2015. The web-based global T&A product, based on the same technology as GFACS, is scheduled for initial implementation in the

third quarter of CY 2015. This product has the capability of electronic routing, electronic signature, and self-service features. As a result, it will bring more efficient and modern process to the Department's workforce.

## BUSINESS INTELLIGENCE PROGRAM

Domestically, and in support of Department-wide reporting, the GFMS Data Warehouse (DW) was implemented in 2007. Based on a modern, browser-based technology platform, the data warehouse enables users to access financial information from standard, prepared reports or customized queries. It reports in real-time to compile the financial information needed for informed decision making on a day-to-day basis. The GFMS DW also provides, on a daily basis, critical financial information to the Department's enterprise data warehouse. In 2014, a new Budget Dashboard was implemented in the GFMS DW to assist our central budget office manage and track the Department's funding. A new Bureau-level Unliquidated Obligation (ULO) Dashboard

was also implemented to assist the bureaus track and resolve issues with their ULO balances. Progress continued to be made on the development of Travel dashboards. Through the receipt of historical data from our ETS1 provider, the table structure, data load process, and initial reports were able to be developed. Implementation of the Travel Dashboard is scheduled for 2015. During 2014, the GFMS DW was also updated to support Single Sign-on and incorporate changes required for the Government-wide Accounting modernization effort. In 2015, the GFMS DW will undergo another technical upgrade to comply with software support and maintenance timelines as well as other third party upgrades (Internet Explorer, Java, etc.). This technical upgrade will be implemented in 2016, but will require significant time in 2015 for analysis, documentation, development of any compatibility updates, and testing.

During 2015, the Department will begin work to develop, test, and implement a new overseas version of the Data Warehouse. This DW will receive detailed data from our

overseas financial management system and provide reporting for post users. This version of the DW will be implemented in 2015 for a few posts as a pilot with an initial set of reports. Additional reports and implementations will then be accomplished in 2016.

In addition to the GFMS Data Warehouse, CGFS continues to work on business intelligence systems to support Department financial managers through several features of the COAST system. COAST Reporting was implemented in late 2006, to support overseas financial management officers and post decision makers. In subsequent years, improvements were added to provide the capability to develop budget plans and monitor execution of those plans. Improvements were also made to the information drill-down to allow significant flexibility in filtering and summarizing financial transactions. In addition, COAST Payroll Reporting provides access to payroll-specific data at the post, bureau, and agency levels and will take advantage of COAST's existing drill-down and reporting functionality.

# Heritage Assets

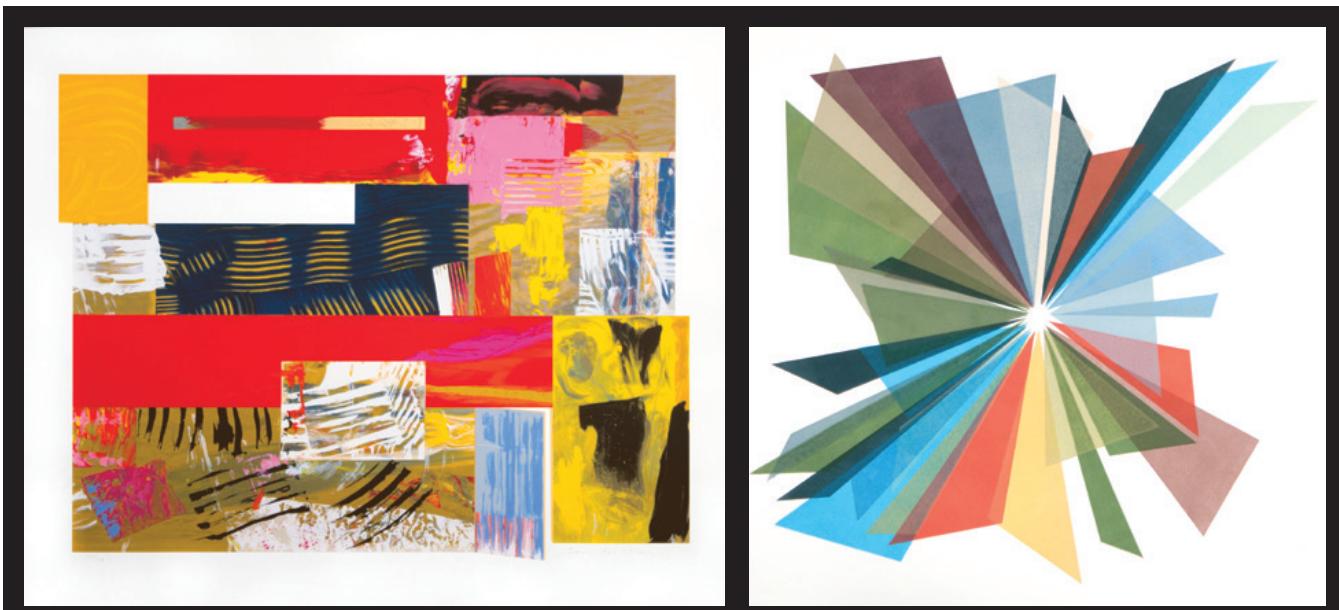
The Department has collections of art objects, furnishings, books, and buildings that are considered heritage or multi-use heritage assets. These collections are housed in the Diplomatic Reception Rooms, senior staff offices in the Secretary's suite, offices, reception areas, conference rooms, the cafeteria and related areas, and embassies throughout the world. The items have been acquired as donations, are on loan from the owners, or were purchased using gift and appropriated funds. The assets are classified into eight categories: the Diplomatic Reception Rooms Collection, Art Bank Program, Art in Embassies Program, Cultural Heritage Collection, Library Rare & Special Book Collection, the Secretary of State's Register of Culturally Significant Property, the U.S. Diplomacy Center, and the Blair House. Items in the Register of Culturally Significant Property category are classified as multi-use heritage assets due to their use in general government operations.

## DIPLOMATIC RECEPTION ROOMS COLLECTION

In 1961, the State Department's Office of Fine Arts began the privately-funded Americana Project to remodel and redecorate the 42 Diplomatic Reception Rooms - including the offices of the Secretary of State - on the seventh and eighth floors of the Harry S Truman Building. The Secretary of State, the President, and Senior Government Officials use the rooms for official functions promoting American values through diplomacy. The rooms reflect American art and architecture from the time of our country's founding and its formative years, 1740 - 1840. The rooms also contain one of the most important collections of early Americana in the nation, with over 5,000 objects, including museum-quality furniture, rugs, paintings, and silver. These items have been acquired through donations or purchases funded through gifts from private citizens, foundations, and corporations. No tax dollars have been used to acquire or maintain the collection. There are three public tours each day.



The Treaty Room of the Diplomatic Reception Rooms, 7th Floor, Harry S Truman Building, Washington, D.C. *Department of State*



Art Bank works include "Untitled" (2001), Sam Gilliam, silkscreen (left) and "Starburst 11" (2014), Laura Berman, monoprint (right).

## ART BANK PROGRAM

The Art Bank Program was established in 1984 to acquire artworks that could be displayed throughout the Department's offices and annexes. The works of art are displayed in staff offices, reception areas, conference rooms, the cafeteria, and related public areas. The collection consists of original works on paper (watercolors and pastels) as well as limited edition prints, such as lithographs, woodcuts, intaglios, and silkscreens. These items are acquired through purchases funded by contributions from each participating bureau.

## RARE & SPECIAL BOOK COLLECTION

In recent years, the Ralph J. Bunche Library has identified books that require special care or preservation. Many of these publications have been placed in the Rare Books and Special Collections Room, which is located adjacent to the Reading Room. Among the treasures is a copy of the Nuremberg Chronicles, which was printed in 1493; volumes signed by Thomas Jefferson; and books written by Foreign Service authors.

## CULTURAL HERITAGE COLLECTION

The Cultural Heritage Collection, which is managed by the Bureau of Overseas Buildings Operations, Office of Residential Design and Cultural Heritage, is responsible for identifying and maintaining cultural objects owned by the Department in its properties abroad. The collections are identified based upon their historic importance, antiquity, or intrinsic value.

## DIPLOMACY CENTER

The U.S. Diplomacy Center will be a unique education and exhibition venue at the Department of State that will explore the history, practice and challenges of U.S. diplomacy. It will be a place that fosters a greater understanding of the role of U.S. diplomacy, past, present and future, and will be an educational resource for students and teachers in the United States and around the globe. Exhibitions and programs will inspire visitors to make diplomacy a part of their lives. The Diplomacy Center is located within the Bureau of Public Affairs, and actively collects artifacts for exhibitions.



Situated adjacent to Regent's Park in London, England, Winfield House is the residence of the U.S. Ambassador to the Court of St. James. Heiress Barbara Hutton built this country manor in 1936, and named it after her grandfather F.W. (Winfield) Woolworth, who had founded the famous Woolworth stores where any item could be purchased for five or ten cents. After World War II, Hutton offered the building to the United States Government to use as the ambassador's residence for the price of one American dollar. *Department of State/OBO*

## SECRETARY OF STATE'S REGISTER OF CULTURALLY SIGNIFICANT PROPERTY

The Secretary of State's Register of Culturally Significant Property was established in January 2001 to recognize the Department's owned properties overseas that have historical, architectural, or cultural significance. Properties in this category include chanceries, consulates, and residences. All these properties are used predominantly in general government operations and are thus classified as multi-use heritage assets. Financial information for multi-use heritage assets is presented in the principal statements. The register is managed by the Bureau of Overseas Buildings Operations, Office of Residential Design and Cultural Heritage.

## ART IN EMBASSIES PROGRAM

The Art in Embassies Program was established in 1964 to promote national pride and the distinct cultural identity of America's arts and its artists. The program, which is managed by the Bureau of Overseas Buildings Operations, provides original U.S. works of art for the representational rooms of United States ambassadorial residences worldwide. The works of art were purchased or are on loan from individuals, organizations, or museums.

## BLAIR HOUSE

Composed of four historic landmark buildings owned by GSA, Blair House, the President's Guest House, operates under the stewardship of the Department of State's Office of the Chief of Protocol and has accommodated official guests of the President of the United States since 1942. In 2012, these buildings were added to the Secretary's Register of Culturally Significant Property for their important role in the U.S. history and the conduct of diplomacy over time. Its many elegant rooms are furnished with collections of predominantly American and English fine and decorative arts, historical artifacts, other cultural objects, rare books, and archival materials documenting the Blair family and buildings history from 1824 to the present. Objects are acquired via purchase, donation or transfer through the private non-profit Blair House Restoration Fund; transfers may also be received through the State Department's Office of Fine Arts and Office of the Chief of Protocol. Collections are managed by the Office of the Curator at Blair House, which operates under the Office of Fine Arts.

# FOCUS

## Promoting Gender Equality and Advancing the Status of Women and Girls

**G**lobally, women and girls are disproportionately affected by poverty and discrimination. Women often end up in insecure, low-wage jobs, and have limited access to the educational resources and financial tools they need to succeed. Women's leadership and participation in politics, civil society, and the private sector is limited on local, national, and global levels. Adolescent girls in developing countries face particular challenges, including poorer educational outcomes; traditional harmful practices such as early and forced marriage; and higher vulnerability to disease and infections, such as HIV.

### Promoting Peace and Ending Gender-based Violence

Women's perspectives and participation, which are vital to achieving and sustaining peace, are too often overlooked in conflict resolution, prevention, and relief and recovery efforts. Women's active participation in decision-making processes is critical to sustainable conflict resolution and in turn increases the effectiveness of prevention efforts. Throughout the world, we continue to see risks of gender-based violence increase when disasters or conflicts strike.

### Providing Opportunity

There is ample evidence to show when governments and societies afford women and girls the opportunity to lead healthy, safe, and productive lives, greater economic growth and stronger societies emerge.

### Diplomacy and Women's Equality

Under President Barack Obama, Secretary Hillary Clinton and now Secretary John Kerry's leadership, the United States has brought an unprecedented focus to bear on promoting gender equality and advancing the status of women and girls around the world.

### Strengthening U.S. Efforts

Secretary Kerry has directed all U.S. embassies and Department bureaus to continue to prioritize these issues in all of their diplomatic, development, and operations activities, including focusing efforts to:



### #TIME TO ACT

U.S. Secretary John Kerry delivers keynote address at the 2014 Global Summit to End Sexual Violence During Conflict U.S. in London, UK, June 13, 2014. *Department of State*

- **Promote women's economic and political participation** — by addressing discrimination against women in economic and political spheres, fostering entrepreneurship and leadership, and removing barriers to meaningful engagement and opportunity;
- **Support U.S. strategic initiatives related to gender-based violence and women, peace, and security** — by implementing the U.S. Strategy to Prevent and Respond to Gender-based Violence Globally (2012) and the U.S. National Action Plan on Women, Peace, and Security (2011);
- **Empower adolescent girls** — by focusing on the specific challenges faced by girls, investing in girls' education, and countering harmful traditional practices, such as early and forced marriage and female genital mutilation/cutting;
- **Prioritize gender equality in international fora** — by advocating for issues affecting women and girls, including a stand-alone goal on gender equality in the Post-2015 Development Agenda.

# Freeze the Footprint

**C**onsistent with Section 3 of the OMB Memorandum-12-12, *Promoting Efficient Spending to Support Agency Operations* and OMB Management Procedures Memorandum 2013-02, the “Freeze the Footprint” policy implementing guidance, all CFO Act departments and agencies shall seek to avoid increasing the total square footage of their domestic office and warehouse inventory compared to a 2012 baseline. As a result, OMB is working in partnership with the GSA and other Federal agencies to right-size the Federal real property inventory.



The Harry S Truman Building, headquarters for the State Department, is seen in Washington, D.C. ©AP Image

While some of the data is comparable to other agencies’ data, the Department functions as a service provider supporting U.S. Government agencies with overseas presence. This affects how the data is analyzed. There are service providers and support staff in domestic facilities that are supporting the interagency overseas. Forty percent of American direct-hire employees under Chief of Mission authority work for other agencies; all of them receive some direct service or management policy coordination from employees occupying domestic facilities. For example, the Department provides management services such as human resources, security, medical, diplomatic pouch and mail, financial management, real estate management, acquisition, information technology, and other services, to all agencies overseas.

The Department’s overall Freeze the Footprint plan shows a growth of eight percent by FY 2015. This growth is largely a result of projects that were ‘in the pipeline’ or otherwise beyond the Department’s control. For example, real property acquired but not yet occupied when the baseline was set; a re-measurement of the Harry S Truman (HST) building; and the necessary addition of swing space during renovations at the HST building.

The Department is working closely with GSA to offset these space increases with space releases and lease terminations. Additionally, the Department is formalizing and enforcing Space Allocation Standards that limit the number of closed offices, improving utilization rates via increased densification, and implementing Mobile Workplace Initiatives where appropriate.

As the Department’s real property needs are ‘mission-driven,’ it must be prepared for real world events that may require changes in its footprint. Whether it is reacting to crises such



as the outbreak of Ebola and other threats to our nation's security, or longer-term engagements such as coalition building and overseeing foreign assistance programs, the Department must have the necessary personnel and facilities to respond rapidly to changing requirements. The OPM noted in July 2014 that from 2008-2014 the Department increased its full time employee workforce by 17 percent, which was more than any other agency. The Department commits however, to continuing to improve utilization rates and accommodating the additional personnel within its current portfolio to the maximum extent possible. Along with office consolidations, relocations of back office operations, and other effective and efficient real property asset management activities, the Department will be able to provide the support the U.S. Government requires overseas while minimizing the costs back home.

The following table compares the most recent reported total square footage and annual operating costs associated with the Department's assets subject to the Freeze the Footprint policy to the 2012 baseline assigned by GSA. The 2014 amounts are not available until after publication of the AFR.

FREEZE THE FOOTPRINT BASELINE COMPARISON (amounts in millions)			
	2013	2012 Baseline	Change
Square Footage	7.1	6.8	0.3
	2013	2012 Reported Cost	Change
Operation and Maintenance Costs	\$14.6	\$11.7	\$2.9

## FOCUS

### U.S.-Africa Leaders Summit

In August 2014, President Obama welcomed leaders from across the African continent to the Nation's Capital for a three-day U.S.-Africa Leaders Summit, the first such event of its kind. This Summit, the largest event any U.S. President has held with African heads of state and government, built on the President's trip to Africa in the summer of 2013 and strengthened ties between the United States and one of the world's most dynamic and fastest growing regions. Specifically, the August 4-6 Summit advanced the Administration's focus on trade and investment in Africa and highlight America's commitment to Africa's security, its democratic development, and its people. At the same time, it highlighted the depth and breadth of the United States' commitment to the African continent, advance our shared priorities and enable discussion of concrete ideas to deepen the partnership. At its core, this Summit was about fostering stronger ties between the United States and Africa. The theme of the Summit was "Investing in the Next Generation." Focusing on the next generation is at the core of a government's responsibility and work, and this Summit was an opportunity to discuss ways of stimulating growth, unlocking opportunities, and creating an enabling environment for the next generation.

**U.S. Secretary of State John Kerry holds a conversation with the nation's top diplomats during the Global Chiefs of Mission Conference at the U.S. Department of State in Washington, D.C., March 11, 2014. *Department of State***



# Appendices

## Appendix A: Abbreviations and Acronyms

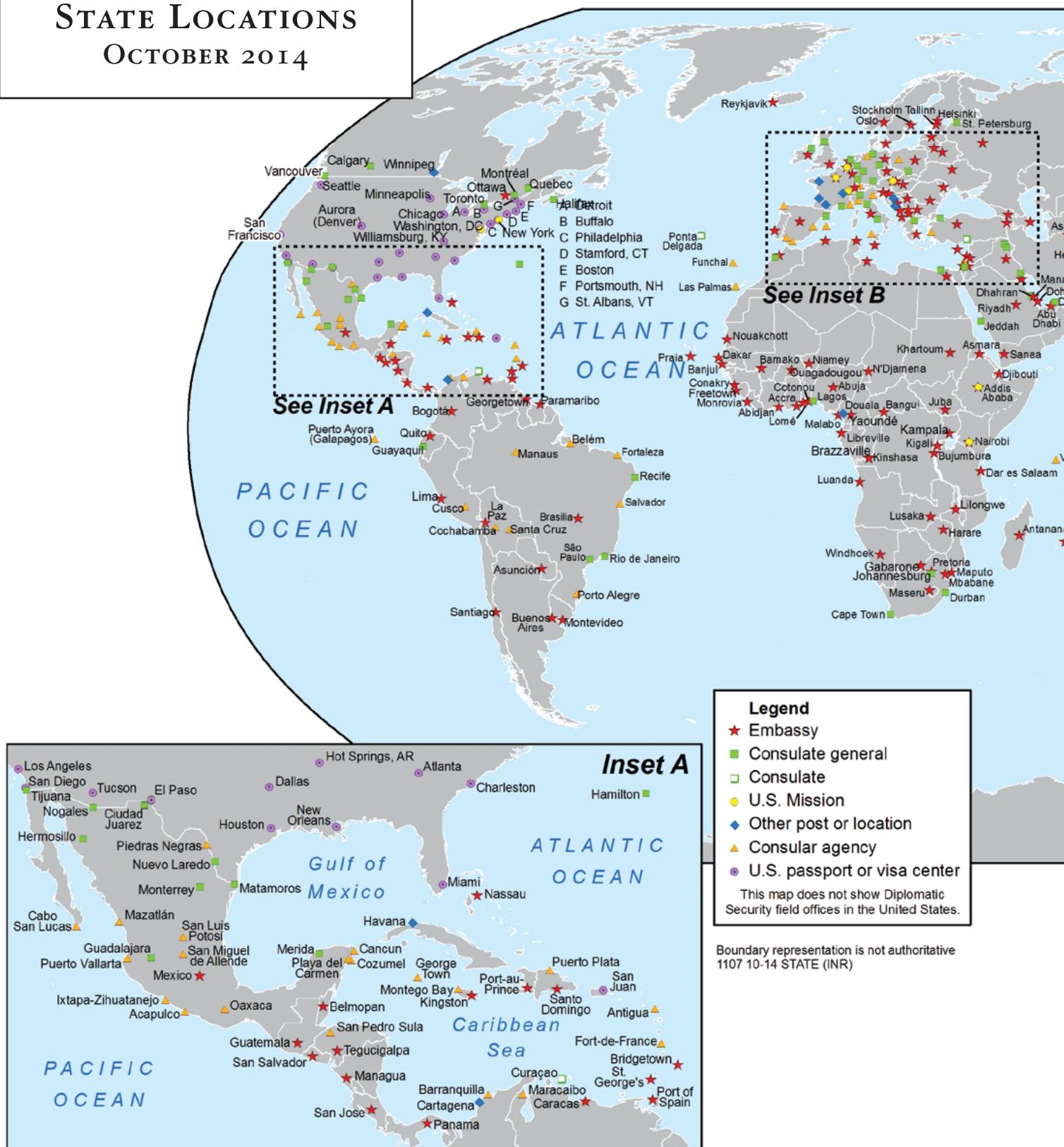
<b>A</b>	Bureau of Administration (DOS)	<b>COR</b>	Contracting Officer's Representative
<b>ADP</b>	Automated Data Processing	<b>COTS</b>	Commercial Off-the-Shelf
<b>AF</b>	Bureau of African Affairs (DOS)	<b>CRMS</b>	Central Resource Management System
<b>AFR</b>	Agency Financial Report	<b>CSO</b>	Bureau of Conflict and Stabilization Operations (DOS)
<b>AGA</b>	Association of Government Accountants	<b>CSRS</b>	Civil Service Retirement System
<b>AIDS</b>	Acquired Immunodeficiency Syndrome	<b>CY</b>	Current Year
<b>AP</b>	Associated Press	<b>D&amp;CP</b>	Diplomatic and Consular Programs (DOS)
<b>APG</b>	Agency Priority Goal	<b>DCF</b>	Defined Contributions Fund
<b>APP</b>	Annual Performance Plan	<b>DCFO</b>	Deputy Chief Financial Officer (DOS)
<b>Appendix A</b>	OMB Circular A-123, Appendix A	<b>Department</b>	U.S. Department of State
<b>APR</b>	Annual Performance Report	<b>DHS</b>	U.S. Department of Homeland Security
<b>ARRA</b>	American Recovery and Reinvestment Act of 2009	<b>DMF</b>	Death Master File (SSA)
<b>ASEAN</b>	Association of Southeast Asian Nations	<b>DNP</b>	Do Not Pay
<b>BP</b>	Bureau of Budget and Planning (DOS)	<b>DoD</b>	U.S. Department of Defense
<b>BSM</b>	Budget System Modernization	<b>DOL</b>	U.S. Department of Labor
<b>CA</b>	Bureau of Consular Affairs (DOS)	<b>DOS</b>	U.S. Department of State
<b>CAP</b>	Cross-Agency Priority	<b>DS</b>	Bureau of Diplomatic Security (DOS)
<b>CBJ</b>	Congressional Budget Justification	<b>DW</b>	Data Warehouse
<b>CCD</b>	Consular Consolidated Database	<b>E</b>	Under Secretary for Economic Growth, Energy and Environment (DOS)
<b>CDM</b>	Continuous Diagnostics and Mitigation	<b>EAP</b>	Bureau of East Asian and Pacific Affairs (DOS)
<b>CEAR</b>	Certificate of Excellence in Accountability Reporting	<b>ECA</b>	Bureau of Educational and Cultural Affairs (DOS)
<b>CFO</b>	Chief Financial Officer	<b>ECE</b>	Educational and Cultural Exchange Programs
<b>CGFS</b>	Bureau of the Comptroller and Global Financial Services (DOS)	<b>EPLS</b>	Excluded Parties List System (GSA)
<b>CHP</b>	Contractor-Held Property	<b>EFT</b>	Electronic Funds Transfer
<b>CIO</b>	Chief Information Officer	<b>ERMA</b>	U.S. Emergency Refugee and Migration Assistance
<b>CMMI</b>	Capability Maturity Model Integration	<b>ESCM</b>	Embassy Security, Construction, and Maintenance
<b>COAST</b>	Consolidated Overseas Accountability Support Toolbox		

<b>ETS</b>	E-Gov Travel Service	<b>GPRA</b>	Government Performance and Results Act of 1993
<b>EUR</b>	Bureau of European and Eurasian Affairs (DOS)	<b>GSA</b>	U.S. General Services Administration
<b>F</b>	Office of U.S. Foreign Assistance Resources (DOS)	<b>GSS</b>	Global Support Strategy
<b>FAIN</b>	Federal Award Identification Number	<b>GWA</b>	Government-wide Accounting
<b>FAO</b>	Food and Agriculture Organization (UN)	<b>HHS</b>	U.S. Department of Health and Human Services
<b>FASAB</b>	Federal Accounting Standards Advisory Board	<b>HIV</b>	Human Immunodeficiency Virus (AIDS)
<b>FBWT</b>	Fund Balance With Treasury	<b>HSPD</b>	Homeland Security Presidential Directive
<b>FECA</b>	Federal Employees Compensation Act	<b>HTHR</b>	High-Threat, High-Risk
<b>FEGLIP</b>	Federal Employees Group Life Insurance Program	<b>IAS</b>	International Accounting Standards
<b>FEHBP</b>	Federal Employees Health Benefits Program	<b>IASB</b>	International Accounting Standards Board
<b>FERS</b>	Federal Employees Retirement System	<b>IBWC</b>	International Boundary and Water Commission
<b>FFMIA</b>	Federal Financial Management Improvement Act of 1996	<b>ICAO</b>	International Civil Aviation Organization (UN)
<b>FISMA</b>	Federal Information Security Management Act of 2002	<b>ICASS</b>	International Cooperative Administrative Support Services (DOS)
<b>FMF</b>	Foreign Military Financing	<b>ICOFR</b>	Internal Control Over Financial Reporting
<b>FMFIA</b>	Federal Managers' Financial Integrity Act of 1982	<b>IG</b>	Inspector General
<b>FMLP</b>	Future Minimum Lease Payments	<b>IIP</b>	Bureau of International Information Programs (DOS)
<b>FSI</b>	Foreign Service Institute	<b>IMET</b>	International Military Education and Training
<b>FSN</b>	Foreign Service National	<b>INCLE</b>	International Narcotics Control and Law Enforcement
<b>FSNAEB</b>	Foreign Service Nationals' After-Employment Benefits	<b>INL</b>	Bureau of International Narcotics and Law Enforcement (DOS)
<b>FSN DCF</b>	Foreign Service National Defined Contributions Fund	<b>INR</b>	Bureau of Intelligence and Research (DOS)
<b>FSNLTF</b>	Foreign Service National Separation Liability Trust Fund	<b>IO</b>	Bureau of International Organizations (DOS)
<b>FSO</b>	Foreign Service Officer	<b>IPAC</b>	Intragovernmental Payment and Collection
<b>FSRDF</b>	Foreign Service Retirement and Disability Fund	<b>IPE</b>	Office of Intellectual Property Enforcement (DOS)
<b>FSRDS</b>	Foreign Service Retirement and Disability System	<b>IPERA</b>	Improper Payments Elimination and Recovery Act of 2010
<b>FSPS</b>	Foreign Service Pension System	<b>IPIA</b>	Improper Payments Information Act of 2002
<b>FTE</b>	Full-Time Equivalent	<b>IPR</b>	Intellectual Property Rights
<b>FWCB</b>	Federal Workers' Compensation Benefits	<b>IRM</b>	Bureau of Information Resources Management (DOS)
<b>FY</b>	Fiscal Year	<b>IT</b>	Information Technology
<b>GAAP</b>	Generally Accepted Accounting Principles	<b>J</b>	Under Secretary for Civilian Security, Democracy and Human Rights (DOS)
<b>GAO</b>	Government Accountability Office	<b>LACP</b>	League of American Communications Professionals
<b>GEMS</b>	Global Employment Management System	<b>LEDS</b>	Low Emission Development Strategies
<b>GFACS</b>	Global Foreign Affairs Compensation System	<b>LE Staff</b>	Locally Employed Staff
<b>GFMS</b>	Global Financial Management System		
<b>GOR</b>	Grant Officer Representative		

<b>LM</b>	Office of Logistics Management (DOS)	<b>R</b>	Under Secretary for Public Diplomacy and Public Affairs (DOS)
<b>LSSS</b>	Local Social Security System	<b>RAD</b>	Retirement Account Division (DOS)
<b>M</b>	Under Secretary for Management (DOS)	<b>RFMS</b>	Regional Financial Management System
<b>MCSC</b>	Management Control Steering Committee (DOS)	<b>RSI</b>	Required Supplementary Information
<b>MD&amp;A</b>	Management's Discussion and Analysis	<b>SAMS</b>	State Assistance Management System
<b>MENA</b>	Middle East and North Africa	<b>SAT</b>	Senior Assessment Team
<b>MRA</b>	Migration and Refugee Assistance	<b>SBR</b>	Statement of Budgetary Resources
<b>MSG</b>	Marine Security Guard	<b>SCA</b>	Bureau of South and Central Asian Affairs (DOS)
<b>NADR</b>	Nonproliferation, Antiterrorism, Demining, and Related Programs	<b>SDN</b>	Specially Designated Nationals
<b>NATO</b>	North Atlantic Treaty Organization	<b>SFFAS</b>	Statements of Federal Financial Accounting Standards
<b>NEA</b>	Bureau of Near Eastern Affairs (DOS)	<b>SG</b>	Strategic Goal
<b>NEI</b>	National Export Initiative/Next	<b>SNC</b>	Statement of Net Cost
<b>OAS</b>	Organization of American States	<b>SSA</b>	Social Security Administration
<b>OBO</b>	Overseas Buildings Operations (DOS)	<b>STEM</b>	Science, Technology, Engineering and Mathematics
<b>OC</b>	Office of Claims (DOS)	<b>T</b>	Under Secretary for Arms Control and International Security Affairs (DOS)
<b>OCO</b>	Overseas Contingency Operations (DOS)	<b>T&amp;A</b>	Time and Attendance
<b>OECD</b>	Organization for Economic Cooperation and Development	<b>Treasury</b>	U.S. Department of Treasury
<b>OFAC</b>	Office of Foreign Assets Control	<b>TSP</b>	Thrift Savings Plan
<b>OI</b>	Other Information	<b>UDO</b>	Undelivered Orders
<b>OIG</b>	Office of Inspector General (DOS)	<b>UK</b>	United Kingdom
<b>OMA</b>	Office of Oversight and Management Analysis (DOS)	<b>ULO</b>	Unliquidated Obligations
<b>OMB</b>	U.S. Office of Management and Budget	<b>UN</b>	United Nations
<b>OPM</b>	U.S. Office of Personnel Management	<b>UNEP</b>	United Nations Environment Programme (UN)
<b>OSCE</b>	Organization for Security and Co-operation in Europe	<b>UNESCO</b>	United Nations Educational, Scientific and Cultural Organization (UN)
<b>P</b>	Under Secretary for Political Affairs (DOS)	<b>UNVIE</b>	U.S. Mission to International Organizations in Vienna
<b>PBO</b>	Projected Benefit Obligation	<b>USAID</b>	U.S. Agency for International Development
<b>PEPFAR</b>	President's Emergency Plan for AIDS Relief	<b>USC</b>	U.S. Code
<b>PIV</b>	Personal Identity Verification	<b>USSGL</b>	U.S. Standard General Ledger
<b>PKO</b>	Peacekeeping Organization	<b>VAT</b>	Value Added Taxes
<b>PPA</b>	Prompt Payment Act	<b>WebRABIT</b>	Resource and Budget Integration Toolkit
<b>PRM</b>	Bureau of Population, Refugees, and Migration (DOS)	<b>WHA</b>	Bureau of Western Hemisphere Affairs (DOS)
<b>PSA</b>	Personal Services Agreement	<b>WinACS</b>	Windows Automated Cashiering System
<b>PSC</b>	Personal Services Contractor	<b>WMD</b>	Weapons of Mass Destruction
<b>PY</b>	Prior Year	<b>WSP</b>	Worldwide Security Protection
<b>QDDR</b>	Quadrennial Diplomacy and Development Review		

# Appendix B: Department of State Locations

## DEPARTMENT OF STATE LOCATIONS OCTOBER 2014





# Appendix C: U.S. Secretaries of State Past and Present

1.	<b>Thomas Jefferson</b> (1790-1793)	9.	<b>Henry Clay</b> (1825-1829)
2.	<b>Edmund Jennings Randolph</b> (1794-1795)	10.	<b>Martin Van Buren</b> (1829-1831)
3.	<b>Timothy Pickering</b> (1795-1800)	11.	<b>Edward Livingston</b> (1831-1833)
4.	<b>John Marshall</b> (1800-1801)	12.	<b>Louis McLane</b> (1833-1834)
5.	<b>James Madison</b> (1801-1809)	13.	<b>John Forsyth</b> (1834-1841)
6.	<b>Robert Smith</b> (1809-1811)	14.	<b>Daniel Webster</b> (1841-1843)
7.	<b>James Monroe</b> (1811-1817)	15.	<b>Abel Parker Upshur</b> (1843-1844)
8.	<b>John Quincy Adams</b> (1817-1825)	16.	<b>John Caldwell Calhoun</b> (1844-1845)



**U.S. Secretary of State John Kerry waits for the start of a Groundbreaking Ceremony for the U.S. Diplomacy Center with former Secretaries of State Henry A. Kissinger, James A. Baker, III, Madeleine K. Albright, Colin L. Powell, and Hillary Rodham Clinton at the U.S. Department of State in Washington, D.C., September 3, 2014.** *Department of State*

17.	<b>James Buchanan</b> (1845-1849)	43.	<b>Bainbridge Colby</b> (1920-1921)
18.	<b>John Middleton Clayton</b> (1849-1850)	44.	<b>Charles Evans Hughes</b> (1921-1925)
19.	<b>Daniel Webster</b> (1850-1852)	45.	<b>Frank Billings Kellogg</b> (1925-1929)
20.	<b>Edward Everett</b> (1852-1853)	46.	<b>Henry Lewis Stimson</b> (1929-1933)
21.	<b>William Learned Marcy</b> (1853-1857)	47.	<b>Cordell Hull</b> (1933-1944)
22.	<b>Lewis Cass</b> (1857-1860)	48.	<b>Edward Reilly Stettinius</b> (1944-1945)
23.	<b>Jeremiah Sullivan Black</b> (1860-1861)	49.	<b>James Francis Byrnes</b> (1945-1947)
24.	<b>William Henry Seward</b> (1861-1869)	50.	<b>George Catlett Marshall</b> (1947-1949)
25.	<b>Elihu Benjamin Washburne</b> (1869-1869)	51.	<b>Dean Gooderham Acheson</b> (1949-1953)
26.	<b>Hamilton Fish</b> (1869-1877)	52.	<b>John Foster Dulles</b> (1953-1959)
27.	<b>William Maxwell Evarts</b> (1877-1881)	53.	<b>Christian Archibald Herter</b> (1959-1961)
28.	<b>James Gillespie Blaine</b> (1881-1881)	54.	<b>David Dean Rusk</b> (1961-1969)
29.	<b>Frederick Theodore Frelinghuysen</b> (1881-1885)	55.	<b>William Pierce Rogers</b> (1969-1973)
30.	<b>Thomas Francis Bayard</b> (1885-1889)	56.	<b>Henry A. (Heinz Alfred) Kissinger</b> (1973-1977)
31.	<b>James Gillespie Blaine</b> (1889-1892)	57.	<b>Cyrus Roberts Vance</b> (1977-1980)
32.	<b>John Watson Foster</b> (1892-1893)	58.	<b>Edmund Sixtus Muskie</b> (1980-1981)
33.	<b>Walter Quintin Gresham</b> (1893-1895)	59.	<b>Alexander Meigs Haig</b> (1981-1982)
34.	<b>Richard Olney</b> (1895-1897)	60.	<b>George Pratt Shultz</b> (1982-1989)
35.	<b>John Sherman</b> (1897-1898)	61.	<b>James Addison Baker</b> (1989-1992)
36.	<b>William Rufus Day</b> (1898-1898)	62.	<b>Lawrence Sidney Eagleburger</b> (1992-1993)
37.	<b>John Milton Hay</b> (1898-1905)	63.	<b>Warren Minor Christopher</b> (1993-1997)
38.	<b>Elihu Root</b> (1905-1909)	64.	<b>Madeleine Korbel Albright</b> (1997-2001)
39.	<b>Robert Bacon</b> (1909-1909)	65.	<b>Colin Luther Powell</b> (2001-2005)
40.	<b>Philander Chase Knox</b> (1909-1913)	66.	<b>Condoleezza Rice</b> (2005-2009)
41.	<b>William Jennings Bryan</b> (1913-1915)	67.	<b>Hillary Rodham Clinton</b> (2009-2013)
42.	<b>Robert Lansing</b> (1915-1920)	68.	<b>John Forbes Kerry</b> (2013-present)

# Appendix D: Websites of Interest



U.S. Secretary of State John Kerry hosts a Twitter chat with the Young African Leaders Initiative Network at the U.S. Department of State in Washington, D.C., May 9, 2014. *Department of State*

Thank you for your interest in the U.S. Department of State and its Fiscal Year 2014 Agency Financial Report. Electronic copies of this report and prior years' reports are available through the Department's website: [www.state.gov](http://www.state.gov).

You may also stay connected with the Department via social media and multimedia platforms listed to the right.

In addition, the Department publishes *State Magazine* monthly, except bimonthly in July and August. This magazine facilitates communication between management and employees at home and abroad and acquaints employees with developments that may affect operations or personnel. The magazine is also available to persons interested in working for the Department of State and to the general public. *State Magazine* may be found online at: [www.state.gov/m/dghr/statemag](http://www.state.gov/m/dghr/statemag).



**DipNote** – U.S. Department of State Official Blog: [www.blogs.state.gov](http://www.blogs.state.gov)

**Facebook:** [www.facebook.com/usdos](http://www.facebook.com/usdos)

**Flickr:** [www.flickr.com/photos/statephotos](http://www.flickr.com/photos/statephotos)

**Google+:** [www.plus.google.com/+StateDept#+StateDept/posts](http://www.plus.google.com/+StateDept#+StateDept/posts)

**RSS Feeds:** [www.state.gov/miscechannels/66791.htm](http://www.state.gov/miscechannels/66791.htm)

**Tumblr:** [www.statedept.tumblr.com](http://www.statedept.tumblr.com)

**Twitter:** @StateDept

**YouTube Channel:** [www.youtube.com/user/statenvideo](http://www.youtube.com/user/statenvideo)

# Global Diplomacy Travels

John Forbes Kerry has visited more than 50 countries, traveling over 550,000 miles, during his first 20 months as Secretary of State. He travels to all corners of the world to do his job. His duties as Secretary include acting as the President's representative at all international forums, negotiating treaties and other international agreements, and conducting everyday face-to-face diplomacy.



**U.S. Secretary of State John Kerry waves goodbye as he departs from New Delhi, following the Strategic Dialogue between the United States and India, as well as a meeting with Prime Minister Narendra Modi, August 1, 2014.**

*Department of State*



Assistant Secretary Jacobson visited the booth of La Idea. The Latin American IdEA Partnership (La Idea) is a business competition platform that fosters collaboration between entrepreneurs in the United States and Latin America with the goal of expanding innovative businesses that will generate employment and economic growth throughout the Americas. La Idea's objective is to maximize the ongoing collaboration and shared expertise between U.S. and Latin American business communities to increase economic opportunity and jobs in Latin America. *Department of State*

## 2014 IMAGE CREDITS

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Associated Press (AP): Pages 22, 148

Department of State: Cover, Table of Contents, pages 3, 4, 6, 9, 10, 16, 19, 21, 24, 25, 32, 35, 45, 50, 72, 79, 81, 85, 87, 89, 93, 106, 113, 116, 144, 146, 147, 149, 150, 156, 158, 159, 160

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